



0000107483

**Transcript Exhibit(s)**

**Docket #(s):** W-01380A-09-0106

---

---

---

---

---

**Exhibit #:** A1-A6, S1

---

---

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

2010 JAN -4 11:59

RECEIVED

Arizona Corporation Commission  
**DOCKETED**

JAN -4 2010

DOCKETED BY

# ARIZONA CORPORATION COMMISSION



## RECEIVED

MAR - 9 2009

ARIZONA CORP. COMM  
400 W CONGRESS STE 218 TUCSON AZ 85701

### FINANCING APPLICATION

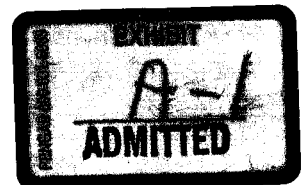
RAY WATER COMPANY  
UTILITY NAME

W-01380A  
DOCKET NO(S)

You must complete ALL items in the application according to the instructions provided. If you have any questions regarding the application please call (602) 542-4251 for Staff assistance.

IN ORDER TO PROCESS YOUR APPLICATION  
PLEASE FORWARD THE ORIGINAL  
AND THIRTEEN COPIES OF THE  
APPLICATION PLUS  
THREE PACKETS OF THE SUPPORTING  
DOCUMENTATION TO:

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL CENTER  
1200 WEST WASHINGTON STREET  
PHOENIX, ARIZONA 85007



BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION	)	DOCKET NO. W-01380A
Of RAY WATER COMPANY, AN ARIZONA	)	
CORPORATION, FOR APPROVAL OF	)	FINANCING APPLICATION
LONG TERM FINANCING FOR REPLACEMENT	)	
OF AN EXISTING WELL.	)	

---

COMES NOW RAY WATER COMPANY, an Arizona corporation (Applicant), by and through its undersigned attorney Hugh A. Holub, and makes this Application for Approval by the Arizona Corporation Commission for up to \$500,000 of financing to replace an existing well.

In support of this Application, Applicant states as follows:

1. Ray Water Company is a public service corporation holding a Certificate of Convenience & Necessity to provide public utility water service to a service area located in the southern part of metropolitan Tucson, Arizona.
  2. The offices of Ray Water Company are located at 414 N. Court Avenue, Tucson, Arizona. Rhonda Mallis Rosenbaum is the company's general manager and authorized representative.
  3. Applicant proposed to borrow \$500,000 from R & M Real Estate Limited Partnership, L.L.P. for a term of 10 years at 9% interest rate. R & M Real Estate Limited Partnership, L.L.P. is a separate, independent entity owned by the shareholders of Applicant. Attached as Exhibit 1 to this Application and made a part hereof is the proposed Promissory Note. The assets of Applicant will not be encumbered by this Note.
  4. Attached as Exhibit 2 to this Application and made a part hereof is the proposed schedule of debt service.
  5. Attached as Exhibit 3 is the Certificate of Resolution authorizing the loan.
  6. Applicant has sought external financing from area banks, and received the proposals shown on Exhibits 4 and 5 attached to this Application and made a part hereof. Unlike the external financing offers, Applicant's lender is not requiring a security interest in the assets of Ray Water Company.
  7. The funds being sought by this Application are to be used for the engineering and construction of a replacement well to replace existing well #6 providing water to the customers of Applicant. Without replacing Well #6, Applicant needs the replacement to meet the existing water demands of its customers.
  8. The necessity for replacing Well #6 is described in more detail in the letter from Kara Festa, WestLand Resources, attached as Exhibit 6 and made a part hereof.
  9. The cost estimate for replacing Well # 6 is described in more detail on Exhibit 7 attached hereto and made a part hereof.
-

10. Current balance sheet and income statement financial information for Applicant is shown on Exhibit 8 attached hereto and made a part hereof.

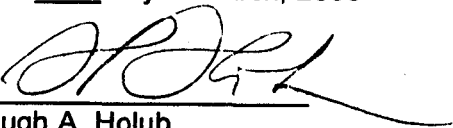
11. A summary of the well replacement project is attached as Exhibit 9.

12. Applicant believes that the public interest is best served by replacing the existing well to assure its customers of an uninterrupted supply of water during peak summer water demand periods.

13. Applicant requests expedited processing of this Application as it is anticipated it will take 60 days from Notice to Proceed to actual drill and equip the replacement well, which needs to be in service as soon as possible.

RESPECTFULLY SUBMITTED this 9<sup>th</sup> day of March, 2009

By



Hugh A. Holub  
Attorney at Law  
PO Box 4773  
Tubac, Arizona 85646  
(520) 841 2278  
Fax (520) 398-9571  
[hughholub@msn.com](mailto:hughholub@msn.com)

---

W-01380A  
Ray Water Company



**Ray Water Company**  
**Docket#W-01380A**  
**Exhibit 1**

**PROMISSORY NOTE**

\$500,000.00

Tucson, Arizona

March 9, 2009

In installments as herein stated, for value received, RAY WATER COMPANY, INC., an Arizona Corporation ("Borrower") promise to pay to the order of R & M REAL ESTATE LIMITED PARTNERSHIP, L.L.P., an Arizona Limited Liability Partnership ("Lender") the sum of FIVE HUNDRED THOUSAND DOLLARS AND NO CENTS (\$500,000.00), with interest from \_\_\_\_\_ at the rate of NINE PERCENT (9 %) per annum; principal and interest payable in installments of SIX THOUSAND THREE HUNDRED THIRTY FOUR DOLLARS AND NO CENTS (\$6334.00) per month beginning \_\_\_\_\_, and continuing for ten (10) years until principal and interest are paid in full.

Each payment shall be credited first on interest then due and the remainder on principal; and interest shall thereupon cease upon the principal so credited. Principal and interest shall be payable in legal tender of the United States.

Borrower reserves the right to make full or partial payments of principal only at any time before they are due ("prepayment"). Any prepayment shall be without penalty and Borrower shall notify Lender in writing of any prepayment. Lender shall apply all prepayments to reduce the amount of principal owed under this Note.

Should default be made in payment of any installment of principal or interest when due, the whole sum of principal and interest shall become immediately due and payable at the option of the holder of this Note.

Borrower waives grace, presentment, claim of homestead exemption, or rights of exemption, demand, notice of dishonor, and protest.

This Note may not be changed orally, but only by an agreement in writing and signed by the party against whom enforcement of any waiver, change, modification, or a discharge is sought.

Should suit be brought to recover on this Note, Borrower promises to pay reasonable attorney's fees in addition to the amount found due on this Note.

---

RAY WATER COMPANY, INC.

**Ray Water Company****Docket#W-01380A****Exhibit 2****Loan Summary & Amortization Schedule**

\$6,333.79: Monthly Principal &amp; Interest

\$760,054.64: Total of 120 Payments

\$260,054.64: Total Interest Paid

Mar, 2019: Pay-off Date

Month	Interest	Principal	Balance
Apr, 2009	\$3,750.00	\$2,583.79	\$497,416.21
May, 2009	\$3,730.62	\$2,603.17	\$494,813.04
Jun, 2009	\$3,711.10	\$2,622.69	\$492,190.35
Jul, 2009	\$3,691.43	\$2,642.36	\$489,547.99
Aug, 2009	\$3,671.61	\$2,662.18	\$486,885.81
Sep, 2009	\$3,651.64	\$2,682.15	\$484,203.67
Oct, 2009	\$3,631.53	\$2,702.26	\$481,501.41
Nov, 2009	\$3,611.26	\$2,722.53	\$478,778.88
Dec, 2009	\$3,590.84	\$2,742.95	\$476,035.93
Jan, 2010	\$3,570.27	\$2,763.52	\$473,272.41
Feb, 2010	\$3,549.54	\$2,784.25	\$470,488.17
Mar, 2010	\$3,528.66	\$2,805.13	\$467,683.04
Apr, 2010	\$3,507.62	\$2,826.17	\$464,856.87
May, 2010	\$3,486.43	\$2,847.36	\$462,009.51
Jun, 2010	\$3,465.07	\$2,868.72	\$459,140.79
Jul, 2010	\$3,443.56	\$2,890.23	\$456,250.56
Aug, 2010	\$3,421.88	\$2,911.91	\$453,338.65
Sep, 2010	\$3,400.04	\$2,933.75	\$450,404.90
Oct, 2010	\$3,378.04	\$2,955.75	\$447,449.15
Nov, 2010	\$3,355.87	\$2,977.92	\$444,471.23
Dec, 2010	\$3,333.53	\$3,000.25	\$441,470.98
Jan, 2011	\$3,311.03	\$3,022.76	\$438,448.22
Feb, 2011	\$3,288.36	\$3,045.43	\$435,402.79
Mar, 2011	\$3,265.52	\$3,068.27	\$432,334.53
Apr, 2011	\$3,242.51	\$3,091.28	\$429,243.25
May, 2011	\$3,219.32	\$3,114.46	\$426,128.78
Jun, 2011	\$3,195.97	\$3,137.82	\$422,990.96
Jul, 2011	\$3,172.43	\$3,161.36	\$419,829.60
Aug, 2011	\$3,148.72	\$3,185.07	\$416,644.54
Sep, 2011	\$3,124.83	\$3,208.95	\$413,435.58
Oct, 2011	\$3,100.77	\$3,233.02	\$410,202.56
Nov, 2011	\$3,076.52	\$3,257.27	\$406,945.29
Dec, 2011	\$3,052.09	\$3,281.70	\$403,663.59
Jan, 2012	\$3,027.48	\$3,306.31	\$400,357.28
Feb, 2012	\$3,002.68	\$3,331.11	\$397,026.17
Mar, 2012	\$2,977.70	\$3,356.09	\$393,670.08
Apr, 2012	\$2,952.53	\$3,381.26	\$390,288.81
May, 2012	\$2,927.17	\$3,406.62	\$386,882.19
Jun, 2012	\$2,901.62	\$3,432.17	\$383,450.02
Jul, 2012	\$2,875.88	\$3,457.91	\$379,992.11
Aug, 2012	\$2,849.94	\$3,483.85	\$376,508.26
Sep, 2012	\$2,823.81	\$3,509.98	\$372,998.28
Oct, 2012	\$2,797.49	\$3,536.30	\$369,461.98
Nov, 2012	\$2,770.96	\$3,562.82	\$365,899.16
Dec, 2012	\$2,744.24	\$3,589.55	\$362,309.61
Jan, 2013	\$2,717.32	\$3,616.47	\$358,693.14
Feb, 2013	\$2,690.20	\$3,643.59	\$355,049.55
Mar, 2013	\$2,662.87	\$3,670.92	\$351,378.64
Apr, 2013	\$2,635.34	\$3,698.45	\$347,680.19
May, 2013	\$2,607.60	\$3,726.19	\$343,954.00
Jun, 2013	\$2,579.66	\$3,754.13	\$340,199.87
Jul, 2013	\$2,551.50	\$3,782.29	\$336,417.58
Aug, 2013	\$2,523.13	\$3,810.66	\$332,606.92
Sep, 2013	\$2,494.55	\$3,839.24	\$328,767.68
Oct, 2013	\$2,465.76	\$3,868.03	\$324,899.65

Nov, 2013	\$2,436.75	\$3,897.04	\$321,002.61
Dec, 2013	\$2,407.52	\$3,926.27	\$317,076.34
Jan, 2014	\$2,378.07	\$3,955.72	\$313,120.63
Feb, 2014	\$2,348.40	\$3,985.38	\$309,135.24
Mar, 2014	\$2,318.51	\$4,015.27	\$305,119.97
Apr, 2014	\$2,288.40	\$4,045.39	\$301,074.58
May, 2014	\$2,258.06	\$4,075.73	\$296,998.85
Jun, 2014	\$2,227.49	\$4,106.30	\$292,892.55
Jul, 2014	\$2,196.69	\$4,137.09	\$288,755.46
Aug, 2014	\$2,165.67	\$4,168.12	\$284,587.34
Sep, 2014	\$2,134.41	\$4,199.38	\$280,387.95
Oct, 2014	\$2,102.91	\$4,230.88	\$276,157.07
Nov, 2014	\$2,071.18	\$4,262.61	\$271,894.46
Dec, 2014	\$2,039.21	\$4,294.58	\$267,599.88
Jan, 2015	\$2,007.00	\$4,326.79	\$263,273.09
Feb, 2015	\$1,974.55	\$4,359.24	\$258,913.85
Mar, 2015	\$1,941.85	\$4,391.93	\$254,521.92
Apr, 2015	\$1,908.91	\$4,424.87	\$250,097.04
May, 2015	\$1,875.73	\$4,458.06	\$245,638.98
Jun, 2015	\$1,842.29	\$4,491.50	\$241,147.49
Jul, 2015	\$1,808.61	\$4,525.18	\$236,622.30
Aug, 2015	\$1,774.67	\$4,559.12	\$232,063.18
Sep, 2015	\$1,740.47	\$4,593.31	\$227,469.87
Oct, 2015	\$1,706.02	\$4,627.76	\$222,842.10
Nov, 2015	\$1,671.32	\$4,662.47	\$218,179.63
Dec, 2015	\$1,636.35	\$4,697.44	\$213,482.19
Jan, 2016	\$1,601.12	\$4,732.67	\$208,749.52
Feb, 2016	\$1,565.62	\$4,768.17	\$203,981.35
Mar, 2016	\$1,529.86	\$4,803.93	\$199,177.42
Apr, 2016	\$1,493.83	\$4,839.96	\$194,337.46
May, 2016	\$1,457.53	\$4,876.26	\$189,461.20
Jun, 2016	\$1,420.96	\$4,912.83	\$184,548.37
Jul, 2016	\$1,384.11	\$4,949.68	\$179,598.70
Aug, 2016	\$1,346.99	\$4,986.80	\$174,611.90
Sep, 2016	\$1,309.59	\$5,024.20	\$169,587.70
Oct, 2016	\$1,271.91	\$5,061.88	\$164,525.82
Nov, 2016	\$1,233.94	\$5,099.85	\$159,425.97
Dec, 2016	\$1,195.69	\$5,138.09	\$154,287.88
Jan, 2017	\$1,157.16	\$5,176.63	\$149,111.25
Feb, 2017	\$1,118.33	\$5,215.45	\$143,895.80
Mar, 2017	\$1,079.22	\$5,254.57	\$138,641.23
Apr, 2017	\$1,039.81	\$5,293.98	\$133,347.25
May, 2017	\$1,000.10	\$5,333.68	\$128,013.56
Jun, 2017	\$960.10	\$5,373.69	\$122,639.88
Jul, 2017	\$919.80	\$5,413.99	\$117,225.89
Aug, 2017	\$879.19	\$5,454.59	\$111,771.29
Sep, 2017	\$838.28	\$5,495.50	\$106,275.79
Oct, 2017	\$797.07	\$5,536.72	\$100,739.07
Nov, 2017	\$755.54	\$5,578.25	\$95,160.82
Dec, 2017	\$713.71	\$5,620.08	\$89,540.74
Jan, 2018	\$671.56	\$5,662.23	\$83,878.51
Feb, 2018	\$629.09	\$5,704.70	\$78,173.81
Mar, 2018	\$586.30	\$5,747.49	\$72,426.32
Apr, 2018	\$543.20	\$5,790.59	\$66,635.73
May, 2018	\$499.77	\$5,834.02	\$60,801.71
Jun, 2018	\$456.01	\$5,877.78	\$54,923.93
Jul, 2018	\$411.93	\$5,921.86	\$49,002.07
Aug, 2018	\$367.52	\$5,966.27	\$43,035.80
Sep, 2018	\$322.77	\$6,011.02	\$37,024.78
Oct, 2018	\$277.69	\$6,056.10	\$30,968.68
Nov, 2018	\$232.27	\$6,101.52	\$24,867.15
Dec, 2018	\$186.50	\$6,147.29	\$18,719.87
Jan, 2019	\$140.40	\$6,193.39	\$12,526.48
Feb, 2019	\$93.95	\$6,239.84	\$6,286.64
Mar, 2019	\$47.15	\$6,286.64	\$0.00

**CERTIFICATE OF RESOLUTION**

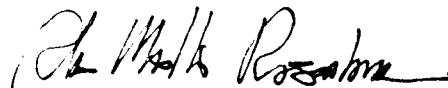
The undersigned Secretary of Ray Water Company, Inc. hereby certifies the following resolutions were adopted by the Board of Directors of Ray Water Company, Inc., a quorum of its members being present at a special meeting held at 414 N. Court Avenue, Tucson, Arizona on January 14, 2009. Such resolutions have not been modified or amended and remain in full force and effect.

**RESOLVED**, that Ray Water Company, Inc. is authorized to execute an unsecured promissory note with Ray Water Company, as Borrower, and R & M Real Estate, L.L.P. as Lender, in an amount not to exceed Five Hundred Thousand Dollars (\$500,000) for a term of not more than Ten (10) years, at an interest rate no higher than ten percent (10%) per annum to finance the drilling of a replacement well and all plant necessary to connect the replacement well to Ray Water Company's existing system.

**RESOLVED**, that the Board of Directors and Officers of Ray Water Company, Inc. believe that the long term financing of the replacement well is within Ray Water Company's corporate powers; compatible with the public interest; compatible with sound financial practices; and compatible with Ray Water Company's proper performance of service as a public service corporation, and will not impair its ability to perform that service.

**FURTHER RESOLVED**, Ray Water Company, Inc. authorizes the President, Vice-President, and/or Secretary of Ray Water Company, Inc. to execute such documents on behalf of Ray Water Company, Inc. and perform any other act necessary to complete the purpose of this resolution.

**WITNESS** my hand and seal of this corporation on this 14<sup>th</sup> day of January, 2009.



Rhonda Mallis Rosenbaum  
Secretary, Ray Water Company, Inc.

**Ray Water Company**  
**Docket#W-01380A**  
**Exhibit 4**

**Wells Fargo Bank**  
Credit Proposal For  
Ray Water Co.  
414 N. Court Ave  
Tucson, AZ 85701

1/7/2009

Wells Fargo Bank, National Association ("Wells Fargo") is pleased to propose the following financing to you. Note that this proposal is for discussion purposes only and does not represent an approval to lend. A formal approval may or may not be issued following the completion of our due diligence process. The following proposal represents the key terms and conditions under which Wells Fargo may be willing to lend. These terms are subject to change based upon recommendations provided by collateral analysts, senior management, or legal counsel.

**Borrower:** Ray Water Co

**Type of Credit:** Advancing Term Loan

**Amount\*:** \$400,000

**Purpose\*:** Purchase of equipment (water well)

**Interest Rate\*:** 8.25

**Loan Fees\*:** \$1500

**Collateral\*:** Water well

**Maturity\*:** Proposed loan will mature 10 years from the date of funding.

**Repayment\*:** Monthly P&I payments may be auto debited from a Wells Fargo commercial account.

**Continuing  
Guarantees\*:** Rhonda Rosenbaum

**\*Presented for illustration and discussion purposes only and  
subject to credit underwriting and due diligence.**

**Covenants:** Depending on the specifics of the loan request, you may be required to maintain certain financial conditions or ratios, which will be determined during the credit underwriting process.

**Subject To:** For discussion purposes only and to illustrate pre-commitment requirements typical for this type of loan.

- Certificate of Insurance on Subject collateral
- Completion of Credit Investigations and Due Diligence on Borrower and Guarantors
- Completion of Wells Fargo Bank's Environmental Questionnaire
- Completion of Wells Fargo Loan Documents
- Copy of Lease Agreements (if applicable)
- Copy of Real Estate Tax Evaluation (if applicable)
- Satisfactory Real Estate Evaluation (if applicable)
- Submission of Articles of Incorporation / Organization
- Submission of Corporate Bylaws
- Title Report Satisfactory to the Bank (if applicable)
- Verification of Marketable Securities

**Borrower's Submission**      Borrower is required to provide the following financial information  
**of Financial Information:**      (additional information may be required)

- Annual federal Income Tax Returns for Borrower and Guarantor(s)
- Annual Personal Financial Statement for Guarantor(s)
- Annual CPA or Co. Prep. Financial Statements (Bal. Sheet & Profit/Loss Stmt)
- Annual CPA Audited/Reviewed Financial Statements
- Monthly Accounts Payable Reports
- Monthly Accounts Receivable Aging Reports
- Monthly Borrowing Base Certificates
- Quarterly Interim Financial Statements (Balance Sheet & Profit/Loss Stmt)

This proposal is not a commitment to lend. If the proposal outlined in this letter forms the basis for further discussions about your credit needs, please sign below to acknowledge receipt of this letter, your agreement to the confidentiality provisions below, and your desire to continue our discussions. Please return the signed letter to us by {Deadline Date}.

The proposal set forth herein is personal to the Borrower and may not be transferred or assigned without prior written consent of Wells Fargo. **Neither this letter, nor any portions hereof, may be disclosed or exhibited to any person, entity, or lender without the prior written consent of Wells Fargo.** After the receipt of a signed copy of this letter and submission of a complete credit application package, the Bank will continue with its normal diligence and proceed with its credit underwriting process.

**SIGNATURE REQUIRED:**

Wells Fargo Bank, National Association

By: \_\_\_\_\_  
**Tony Hannigan**  
**Industry Specialist**  
Wells Fargo Government Banking

Date: \_\_\_\_\_  
January 7, 2009

RAY WATER COMPANY  
Docket # W-01380A  
Exhibit 5



# National Bank

O F A R I Z O N A

January 5, 2009

Ray Water Company  
Rhonda Rosenbaum  
414 N Court Ave.  
Tucson, AZ 85701

Dear Rhonda,

We are pleased to provide the following general terms for the proposed structure National Bank of Arizona would consider for financing. Final terms and conditions are subject to full underwriting and bank loan approval.

*This letter is for discussion purposes only and is not an offer or commitment to lend.  
The terms proposed herein are subject to revision at National Bank of Arizona's discretion.  
All loans are subject to underwriting and loan committee approval.  
This term sheet may not be contradicted by evidence or any alleged oral agreement,  
may not be disclosed, and may not be relied upon for any purpose without  
National Bank of Arizona's prior written consent.*

NBA loan

\$ 400,000

Collateral: Hard assets to include equipment or real estate  
Borrower: Ray Water Company  
Guarantors: Rhonda Rosenbaum  
Loan Amount: \$400,000  
Bank Fee: \$1,000  
Loan Term: Fixed for 7 years  
Interest Rate: Fixed at 9.0%  
Prepayment: None


**Other condition precedents:**

Loan is further conditioned upon the following:

- No material omissions or material adverse changes in the financial condition of the borrower prior to closing.

I sincerely appreciate the opportunity to establish a business relationship with National Bank of Arizona. My promise is to work diligently for you to provide you with the best financial services at a fair, competitive price. Should you have any questions, please call or if you find it more convenient you may send an E-mail.

If you would like to precede, please contact me and I will provide a list of needed financial information that will be used for underwriting.

  
Sincerely,  
Dean Kelly, VP  
Commercial Lending  
Dean.kelly@nbarizona.com

**Business Banking Center**  
335 North Wilmot Road, Tucson, AZ 85711  
Phone no. (520) 519-2939 Fax no. (520) 750-7356

RAY WATER Company  
Docket # W-01380A  
Exhibit 6

**WestLand Resources, Inc.**  
Engineering and Environmental Consultants

March 4, 2009

Arizona Corporation Commission  
Docket Control Center  
1200 W. Washington Street  
Phoenix, Arizona 85007

**Re: ENGINEERING DOCUMENTATION IN SUPPORT OF THE RAY WATER COMPANY  
LONG-TERM FINANCING APPLICATION  
WESTLAND PROJECT NO. 544.01 A 8000**

To Docket Control Center:

WestLand Resources, Inc. (WestLand) has prepared this letter in support of the Ray Water Company Long-Term Financing Application for the design and construction of a potable water well and well site to replace the Ray Water Company Well No. 6 site. The existing Well No. 6 was taken out of service in December 2008 due to issues concerning the well pump. During a routine well video of the well condition, it was determined that this well is no longer usable due to irreparable damage to the well casing.

With the existing Well No. 6 out of service there is an immediate concern that the existing system capacity could be insufficient for summer peaks, due to the age and condition of several other existing water company wells and the need for redundancy in the water system. Ray Water Company has an interconnect with the adjacent Tucson Water system, and it was necessary for the water company to purchase water from that adjacent provider in the summer of 2007, due to a lack of available well capacity in the system at that time.

The current status of the water company's aging well field must be taken into consideration. The age of certain current wells and recent history of failing wells make it prudent to operate with some redundancy. The design criteria used for planning and design within the water system is such that the system should be capable of providing peak daily demand (PDD) with the largest well out of service. The recommended redundancy allows for outage both due to age and condition issues, and other unforeseen operational issues with the existing wells. In addition, the water company has committed to service for certain future water system customers with a portion of the existing well capacity which was constructed by those future customers. The Ray Water Company's well capacities and original drilling years are shown in the table below.

**Table 1. Ray Water Company Well Data**

Well Number	Well Capacity Gallons per Minute (gpm)	Year Drilled/ Replaced
Well No. 2 (replacement well)	410	2007
Well No. 3	250	1969
Well No. 4	125	1973
Well No. 5*	0	1963
Well No. 6**	0	1983
Well No. 7	350	2007
<b>TOTAL</b>	<b>1,135</b>	<b>-</b>

\*Well No. 5 is no longer operational

\*\*Well No. 6 (the topic of this letter) is no longer operational and had a previous capacity of 325 gpm



Docket Control Center

March 4, 2009

Page 2

The estimated PDD of the existing system is approximately 1,000 gpm. Future commitments for water service will increase the demand to approximately 1,160 gpm. Per Table 1, the current well capacity is approximately 1,135 gpm. With any of the three largest well out of service (Well No. 2) the system could not provide PDD during the summer for existing customers. The water company considers the recent history of well outages and required replacements an issue of concern with respect to operation of the water system and adequate service to customers. The replacement of Well No. 6 would provide the required redundancy for the water system, adequate capacity to meet summer demands, and would offset concerns about the other aging Ray Water wells. For this reason, Ray Water Company feels that it is necessary to replace the capacity of Well No. 6 as soon as possible, preferably early in 2009 as feasible.

If you have any questions or concerns please feel free to give me a call.

Respectfully,  
WestLand Resources, Inc.



Kara D. Festa, P.E.  
Vice President

JB:emr

cc: Jon Boitano, WestLand Resources, Inc.

KAY Water Company  
 Docket #W-013804  
 Exhibit 7

**Westland Resources, Inc.**  
 Engineering and Environmental Consultants

**OPINION OF PROBABLE CONSTRUCTION COST**

**Project Name:** Ray Water Company Well No. 6 Design  
**Project No.:** 544.01  
**Location:** 4450 E. Rex St., Tucson, Arizona  
**Description:** Well Drilling and Site Equipping Costs

**Prepared by:** JMB  
**Checked by:** KDF  
**Client:** Ray Water Company  
**Date:** 12/30/08  
**Date:** 1/5/09

Item No.	Item Description	Unit	Quantity	Unit Price	Amount	Remarks
	<b>Well Drilling</b>					
1	Drill new 12-inch well	LS	1	\$252,000	\$252,000	Per Stewart Brother's bid.
	<b>Site Design and Well Equipping</b>					
1	Site work including fencing, gate, grading and gravel	LS	1	\$20,000	\$20,000	
2	Well manifold, site piping, valves and apputances	LS	1	\$50,000	\$50,000	
3	Onsite 6-inch pipeline for connection to existing reservoir fill line	LS	1	\$15,000	\$15,000	Assumes approximately 100 feet of pipeline.
4	Well pump, column, motor and well head	LS	1	\$85,000	\$85,000	
5	Electrical, instrumentation, and controls	LS	1	\$45,000	\$45,000	Assumes three phase electrical is available from power line along boundary of well site
	<b>Subtotal</b>				\$215,000	
	<b>15% Contingency</b>				\$32,250	
	<b>Well Design and Equipping Total</b>				\$247,250	
	<b>Well Drilling and Site Construction Total</b>				\$499,250	
	<b>Consulting Services</b>					

Project Name: Ray Water Company Well No. 6 Design  
Project No.: 544.01  
Location: 4450 E. Rex St., Tucson, Arizona  
Description: Well Drilling and Site Equipping Costs

Prepared by: JMB  
Checked by: KDF  
Client: Ray Water Company  
Date: 12/30/08  
Date: 1/5/09

1	Contract documents for well drilling	LS	1	\$900	\$900	
2	Engineering consulting services for site design, well equipping, and electrical	LS	1	\$25,900	\$25,900	
3	Engineering consulting services for construction project bidding	LS	1	\$6,500	\$6,500	
4	Construction inspection services for submittal to PCDEQ (estimated)	LS	1	\$14,000	\$14,000	
	Consulting Services Total				\$47,300	
	<b>PROJECT TOTAL</b>				<b>\$546,550</b>	

Ray Water Co.

Docket #W-01380A

Exhibit 8

**ARIZONA CORPORATION COMMISSION**  
**UTILITIES DIVISION**

**ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY**

W-01380A  
Ray Water Company  
414 N. Court  
Tucson, AZ 85701

**ANNUAL REPORT**  
**WATER**

**FOR YEAR ENDING**

12	31	2008
----	----	------

FOR COMMISSION USE

ANN 04	08
--------	----

PROCESSED BY:

SCANNED

**COMPANY NAME** Ray Water Company

Ray Water Co  
Docket # W-01380A  
Exhibit 8

**BALANCE SHEET**

Acct No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	<b>ASSETS</b>		
	<b>CURRENT AND ACCRUED ASSETS</b>		
131	Cash	\$ 56,987	\$ 59,647
134	Working Funds	N/A	N/A
135	Temporary Cash Investments	210,235	190,951
141	Customer Accounts Receivable	22,724	23,587
146	Notes/Receivables from Associated Companies	N/A	N/A
151	Plant Material and Supplies	N/A	N/A
162	Prepayments	36,976	8,412
174	Miscellaneous Current and Accrued Assets	*9,440	42,031
	<b>TOTAL CURRENT AND ACCRUED ASSETS</b>	\$ *336,362	\$ 324,628
	<b>FIXED ASSETS</b>		
101	Utility Plant in Service	\$ *3,090,926	\$ 3,431,339
103	Property Held for Future Use	N/A	N/A
105	Construction Work in Progress	345,029	327,451
108	Accumulated Depreciation – Utility Plant	*1,132,614	1,263,199
121	Non-Utility Property	N/A	N/A
122	Accumulated Depreciation – Non Utility	N/A	N/A
	<b>TOTAL FIXED ASSETS</b>	\$ *2,303,341	\$ 2,495,591
	<b>TOTAL ASSETS</b>	\$ *2,639,703	\$ 2,820,219

**NOTE:** The Assets on this page should be equal to Total Liabilities and Capital on the following page.

\* Restated for prior period adjustment.

See Accountant's Compilation Report.

COMPANY NAME

Ray Water Company

Ray Water Co.

Docket #W-01380A

Exhibit 8

**BALANCE SHEET (CONTINUED)**

Acct. No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	<b>LIABILITIES</b>		
	<b>CURRENT LIABILITIES</b>		
231	Accounts Payable	\$ 7,728	\$ 615
232	Notes Payable (Current Portion)	-0-	-0-
234	Notes/Accounts Payable to Associated Companies	-0-	-0-
235	Customer Deposits	84,717	88,595
236	Accrued Taxes	25,066	25,766
237	Accrued Interest	-0-	-0-
241	Miscellaneous Current and Accrued Liabilities	30,144	6,705
	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 147,655</b>	<b>\$ 121,681</b>
	<b>LONG-TERM DEBT (Over 12 Months)</b>		
224	Long-Term Notes and Bonds	\$ -0-	\$ -0-
	<b>DEFERRED CREDITS</b>		
251	Unamortized Premium on Debt	\$ -0-	\$ -0-
252	Advances in Aid of Construction	*962,133	1,064,284
255	Accumulated Deferred Investment Tax Credits	2,331	1,595
271	Contributions in Aid of Construction	*457,552	564,171
272	Less: Amortization of Contributions	*(101,670)	(126,719)
281	Accumulated Deferred Income Tax	*-0-	-0-
	<b>TOTAL DEFERRED CREDITS</b>	<b>\$*1,320,346</b>	<b>\$1,503,331</b>
	<b>TOTAL LIABILITIES</b>	<b>\$*1,468,001</b>	<b>\$1,625,012</b>
	<b>CAPITAL ACCOUNTS</b>		
201	Common Stock Issued	\$ 16,000	\$ 16,000
211	Paid in Capital in Excess of Par Value	41,333	41,333
215	Retained Earnings	*1,114,369	1,137,874
218	Proprietary Capital (Sole Props and Partnerships)		
	<b>TOTAL CAPITAL</b>	<b>\$*1,171,702</b>	<b>\$1,195,207</b>
	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$*2,639,703</b>	<b>\$2,820,219</b>

\* Restated for prior period adjustment.

See Accountant's Compilation Report.

COMPANY NAME

Ray Water Company

Ray Water Co.

Order # W-013500

Exhibit 8

A

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 609,955	\$ 592,199
460	Unmetered Water Revenue	-0-	-0-
474	Other Water Revenues	20,073	24,108
	<b>TOTAL REVENUES</b>	<b>\$ 630,028</b>	<b>\$ 616,307</b>
	<b>OPERATING EXPENSES</b>		
601	Salaries and Wages	\$ 219,329	\$ 223,512
610	Purchased Water	14,229	-0-
615	Purchased Power	76,605	73,925
618	Chemicals	-0-	-0-
620	Repairs and Maintenance	2,429	1,702
621	Office Supplies and Expense	16,909	12,447
630	Outside Services	32,745	43,014
635 604	<del>Water Testing</del> Emp. Pension and Benefit - SEP	30,144	6,705
641	Rents	22,000	22,000
650	Transportation Expenses	9,373	11,710
657	Insurance - General Liability	10,981	11,260
659	Insurance - Health and Life	4,488	6,604
666	Regulatory Commission Expense - Rate Case	-0-	-0-
675	Miscellaneous Expense	13,923	19,154
403	Depreciation Expense	*91,893	109,876
408	Taxes Other Than Income	17,416	17,797
408.11	Property Taxes	36,822	37,129
409	Income Tax	*3,891	(1,653)
	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ *603,177</b>	<b>\$ 595,182</b>
	<b>OPERATING INCOME/(LOSS)</b>	<b>\$ *26,851</b>	<b>\$ 21,125</b>
	<b>OTHER INCOME/(EXPENSE)</b>		
419	Interest and Dividend Income	\$ 15,489	\$ 4,954
421	Non-Utility Income	4,000	144
426	Miscellaneous Non-Utility Expenses	(1,300)	(2,139)
427	Interest Expense	(534)	(579)
	<b>TOTAL OTHER INCOME/(EXPENSE)</b>	<b>\$ 17,655</b>	<b>\$ 2,380</b>
	<b>NET INCOME/(LOSS)</b>	<b>\$ *44,506</b>	<b>\$ 23,505</b>

\* Restated due to prior period adjustment.

See Accountant's Compilation Report.

**Ray Water Company**  
**Docket#W-01380A**  
**Exhibit 9**

**RAY WATER COMPANY**

**414 North Court Avenue**  
**Tucson, Arizona 85701**  
**(520) 623-1332**  
**FAX (520) 623-2302**

March 9, 2009

Arizona Corporation Commission  
Utilities Division  
1200 West Washington Street  
Phoenix, AZ 85007

Ray Water Company respectfully submits this Long Term Financing Application for the Arizona Corporation Commission's immediate processing, inspection and approval. This Long Term Financing Application is required to fund a replacement well for an older large production well that unexpectedly failed in December 2008 and is no longer usable due to irreparable damage to the well casing. Ray Water anticipates that it will require a loan not to exceed Five Hundred Thousand Dollars (\$500,000).

Ray Water does not have the funds needed to pay for a replacement well. This replacement well is necessary to serve existing customers. The replacement well must be drilled and placed online as soon as possible and, if feasible, before June, 2009 in order to avoid a water shortage that could occur as the summer heat approaches.

Ray Water contemplates borrowing the needed money from an affiliated company at a market rate; up to \$500,000 for 10 years at 9%. Ray Water feels confident that we can service this loan from existing revenue with monthly payments of principal and interest. Please see the attached letters from two outside lenders, marked as Exhibits 4 & 5. We used these loan Letters of Intent to determine a fair market value for the loan terms.

The Board of Directors and officers of Ray Water Company, Inc. believe that the long term financing of the replacement well is within Ray Water Company's corporate powers; compatible with the public interest; compatible with sound financial practices; and compatible with Ray Water Company's proper performance of service as a public service corporation, and will not impair its ability to perform that service.

The details of the failed well are as follows: On or about December 6, 2008, Ray Water Well #6 stopped operating. After the pump and submersible motor were pulled and the well was videoed, it was determined that there were many holes in both the well's blank casing and screen. Because of the poor condition of the casing and screen, our hydrology consultants, Clear Creek Associates, recommended abandoning the existing well and drilling a replacement well.



With this Well No. 6 out of service, there is an immediate concern that the existing system capacity could be insufficient for summer peaks in 2009, due to the age and condition of several other existing water company wells and the need for redundancy in the water system. Please see the enclosed letter from Ms. Kara Festa, our project engineer at WestLand Resources, Inc. for a more detailed account of the water system need for this replacement well (Exhibit 6).

The failed well had been Ray Water's main production well for 26 years. Although two new wells have been drilled in the last two years, Ray Water Company's aging well field must be taken into consideration. Ray Water's older wells (Wells #1, #3, #4 & #5) are either at or near the end of their useful life and water production has stopped or continues to decrease in these wells.

The loan funds will be immediately used to drill a replacement well, equip it, and connect the well to the existing system. This replacement well will only restore the production capacity that serves existing Ray Water customers prior to the failure of the well it is replacing. We believe that the recent history of well outages and required replacements are an important and immediate concern with respect to operation of the water system and adequate service to customers. The replacement of Well No. 6 would provide the required redundancy for the water system, adequate capacity to meet this and future summer demands, and would offset concerns about the other aging Ray Water wells. For this reason, Ray Water Company feels that it is necessary to replace the capacity of Well No. 6 as soon as possible, preferably as early in the summer of 2009.

The following is an estimate of the funds needed for the replacement well. Please see the attached Opinion of Probable Cost for a breakdown of the replacement well expenses. (Exhibit 7):

Drill replacement well:	\$252,000
Site work to install pump, electric and connect to existing storage	215,000
Hydrology consultant	21,050
Source Approval sampling	3,500
Engineering design & inspection work	47,300
<b>TOTAL (not including 15% contingency)</b>	<b>\$538,850</b>

Ray Water is a Class C water utility that has been family owned and operated for over 50 years. Ray Water is, and has always been, aware of the economic makeup of its customers. Therefore, Ray Water has always made efforts to keep expenses low, while maintaining the water plant and system for maximum water quality. However, in light of this emergency situation, Ray Water finds it necessary to borrow funds to replace the existing well.

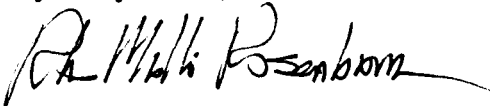
Arizona Corporation Commission  
March 9, 2009  
Page 3

Ray Water needs a replacement well in operation as soon as possible in order to comply with health department regulations requiring minimum pressures on the system. Our engineers have determined that the only way to ensure the company has adequate pressure this summer is to drill a replacement well and have it available to meet summer peak period demands.

Ray Water respectfully requests that this Long Term Financing application be processed in an expedited manner so that minimum required system pressures for existing customers can be maintained.

Thank you for your consideration. My project engineer, Kara Festa, at WestLand Resources is available for you and ACC staff to discuss this situation. Also, please contact me if you have any questions or comments.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Rhonda Mallis Rosenbaum". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Rhonda Mallis Rosenbaum  
Ray Water Company

**COMMISSIONERS**  
KRISTIN K. MAYES, Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP



MICHAEL P. KEARNS  
Interim Executive Director

**ARIZONA CORPORATION COMMISSION**

May 28, 2009

Hugh A. Holub  
Attorney at Law  
P.O. Box 4773  
Tubac, Arizona 85646

*Sent via US Mail and  
Email to: [hughholub@msn.com](mailto:hughholub@msn.com)*

RE: Staff's First Set of Data Requests to Ray Water Company  
Docket No. W-01380A-09-0106

Dear Mr. Holub:

Please treat this as Staff's First Set of Data Requests to Ray Water Company in the above matter.

For purposes of this data request set, the words "Ray Water" "Company," "you," and "your" refer to Ray Water Company and any representative, including every person and/or entity acting with, under the control of, or on behalf of Ray Water Company. For each answer, please identify by name, title, and address each person providing information that forms the basis for the response provided.

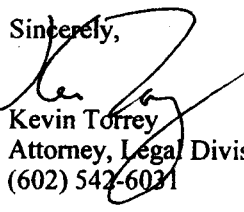
These data requests are continuing, and your answers or any documents supplied in response to these data requests should be supplemented with any additional information or documents that come to your attention after you have provided your initial responses.

Please respond within ten (10) calendar days of your receipt of this letter. However, if you require additional time, please let us know.

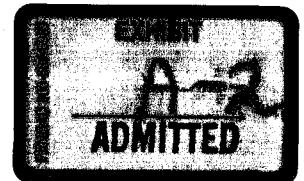
*Please provide one hard copy (ONLY) of the requested data directly to each of the following addressees via overnight delivery services to:*

- (1) Brendan Aladi, Utilities Division, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.
- (2) Kevin Torrey, Attorney, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.

Sincerely,

  
Kevin Torrey  
Attorney, Legal Division  
(602) 542-6031

KOT:ah  
cc: Brendan Aladi  
Enclosure



**ARIZONA CORPORATION COMMISSION  
STAFF'S FIRST SET OF DATA REQUESTS TO  
RAY WATER COMPANY  
DOCKET NO. W-01380A-09-0106  
May 28, 2009**

---

***Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.***

---

BA 1-1      Please provide audited financial statements if available, otherwise provide unaudited information not already submitted with the application for Ray Water Company ("Ray Water" or "Company") for the most recent fiscal year end to include, but not limited to, balance sheets, income statements, reconciliation of retained earnings (membership capital or equity), cash flow statements, footnotes, disclosures, and any other pertinent documentation including a schedule of general and administrative costs, and all management and accountants opinion letters.

Please see our financing application filing (Exhibit 8) for balance sheet information for 2007 and 2008. This is the only financial information we produce on annual basis.

BA 1-2      Please provide the expected terms and an amortization schedule(s) for the proposed loan(s) including, but not limited to, loan amount(s), inception date(s), maturity(ies), interest rate(s), and repayment schedule(s) of principal and interest.

Please see our financing application (Exhibit 2) for the Loan Summary and Amortization Schedule.

BA 1-3      Please provide the latest expected date when the Company plans to withdraw funds.

The date is entirely dependent on the ACC's decision on our long term financing application.

BA 1-4      Please provide the number of total customers currently served by the Company and a break out of the number by customer class (residential, commercial, etc.).

As of December, 2008:

Total # of Customers:	1510
Residential:	1452
Multi Family:	18
Commercial:	40

BA 1-5      Please provide a schedule detailing all unused authorizations for financing obtained from the Arizona Corporation Commission ("Commission") and indicate docket numbers, amounts approved, amounts drawn and any balances not yet drawn. For any balances not yet drawn please provide an explanation of why the

**ARIZONA CORPORATION COMMISSION  
STAFF'S FIRST SET OF DATA REQUESTS TO  
RAY WATER COMPANY  
DOCKET NO. W-01380A-09-0106  
May 28, 2009**

---

funds have not been drawn and how Ray Water intends to utilize the available borrowing capacity.

None

- BA 1-6 Please provide an amortization schedule for each long-term debt obligation, if any, currently owed by Ray Water, including initial loan amount, annual principle requirements, interest expense, maturities, interest rates, balances, creditors, discounts, premiums, loan inception dates and loan maturity dates.

None

- BA 1-7 Please provide all loan covenants associated with the proposed financing including, but not limited to, minimum times interest earned ratio ("TIER") requirements and minimum debt service coverage ratio ("DSC") requirements.

Please see our financing application (Exhibit 1) for Promissory Note

- BA 1-8 If any of the loan proceeds will be used to retire existing long-term or short-term debt, identify the specific loans, amounts and anticipated dates for the refunding.

None

- BA 1-9 Please list the amount of the current revolving line-of-credit facility and the bank(s) or other entities supporting the line and explain any changes Ray Water anticipates to the line during the next five years.

None

- BA 1-10 Please provide a detailed explanation of the annualized commitment fee for the unused balance and any other cost of the revolving line-of-credit.

None

- BA 1-11 If any, please provide a copy of documents submitted in the most recent credit agency(ies) financial review(s).

None

- BA 1-12 Please provide financial information projecting the Company's estimated financial performance for at least the next five years. Please provide cash flow projections in a Microsoft EXCEL compatible format.

**ARIZONA CORPORATION COMMISSION  
STAFF'S FIRST SET OF DATA REQUESTS TO  
RAY WATER COMPANY  
DOCKET NO. W-01380A-09-0106  
May 28, 2009**

---

Tom will provide this.

- BA 1-13      Calculate the estimated TIER and DSC for each of the five projected years based on the projections in request #12.

Tom will provide this.

- BA 1-14      Please provide the Commission decision number and date for the Company's most recent general rate case. Please state the date of the test year end.

Ray Water Company's most recent general rate case was Decision #61610, effective April 1, 1999. The Docket # was W-01380A-98-0457. The date of the test year end was December 31, 1997.

- BA 1-15      Explain any additional financing authorization Ray Water anticipates at this time.

None

Ray Water Company  
Projected Balance Sheets  
For the Years Ended

Exhibit  
Schedule F-1

Line No.	Actual End of 2008	2009	2010	Year 2011	2012	2013
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42						
43						
44						
45						
46						
47						

Unaudited  
Based on Estimates

Ray Water Company  
Projected Income and Expenses  
For the 12 Months Ended

Exhibit  
Schedule F-2

Line No.		Year			
		2008	2009	2010	2011
		Actual 12 Months Ended			
1	Revenues				
2					
3					
4	Metered Water Revenues <sup>6</sup>	\$ 592,199	\$ 592,199	\$ 729,108	\$ 805,776
5	Unmetered Water Revenues	-	-	-	-
6	Other Water Revenues	24,108	7,500	7,881	8,703
7	Total Estimated Revenues	\$ 616,307	\$ 599,699	\$ 736,989	\$ 814,479
8	Operating Expenses				
9	Salaries and Wages <sup>3</sup>	\$ 223,512	\$ 227,982	\$ 237,193	\$ 241,937
10	Purchased Water	-	-	-	-
11	Purchased Power <sup>1,3</sup>	73,925	75,170	76,673	81,398
12	Chemicals (In R&M)	-	-	-	-
13	Repairs and Maintenance <sup>2,3</sup>	1,702	1,736	1,771	1,880
14	Office Supplies and Expense <sup>3</sup>	12,447	12,696	12,950	13,473
15	Outside Services <sup>5</sup>	43,014	43,874	44,752	45,877
16	Outside Services - Other <sup>3</sup>	-	-	-	-
17	Water Testing <sup>1,3</sup>	-	-	-	-
18	Rents <sup>3</sup>	22,000	22,440	22,889	23,347
19	Transportation Expenses <sup>3</sup>	11,710	11,944	12,183	12,427
20	Insurance - General Liability <sup>5</sup>	11,260	11,823	12,414	13,035
21	Insurance - Health and Life <sup>5</sup>	6,604	6,934	7,281	7,645
22	Regulatory Commission Expense - Rate Case	-	-	-	-
23	Miscellaneous Expense (Estimate) <sup>3</sup>	19,154	19,537	19,928	20,326
24	Depreciation Expense (from Depreciation Sched.)	109,876	165,441	187,534	190,750
25	Taxes Other Than Income	17,797	18,239	18,603	18,975
26	Property Taxes <sup>4</sup>	37,129	34,078	31,358	31,841
27	Employee Pension and Benefits <sup>3</sup>	6,705	6,705	6,705	6,705
28					
29	Income Tax	(1,653)	50	50	50
30	Total Operating Expenses	\$ 595,182	\$ 658,649	\$ 687,632	\$ 701,797
31	Operating Income	\$ 21,125	\$ (58,950)	\$ (87,933)	\$ 35,192
32	Other Income (Expense)				
33	Interest Income	4,954	4,703	2,510	1,486
34	Other Income	144	-	-	-
35	Interest Expense	(579)	(45,000)	(42,038)	(38,810)
36	Other Expense	(2,139)	-	-	-
37	Total Other Income (Expense)	\$ 2,380	\$ (40,297)	\$ (39,528)	\$ (37,313)
38	Net Profit (Loss)	\$ 23,505	\$ (99,248)	\$ (127,461)	\$ (2,121)
39					
40					
41					
42					
43					
44					

<sup>1</sup> Based on Per Gallon Per Customer Rates

<sup>2</sup> Based on per Customer per Month Rates

<sup>3</sup> Assumes Annual Inflation of 2 percent.

<sup>4</sup> ADOR Property Tax Calculation

<sup>5</sup> Assumes Annual Inflation of 5percent.

<sup>6</sup> Assumes rate increase granted by end of first quarter 2011 based on a rate case filed in 2010 (test year ending 12/31/2009). Customer growth assumed to be minimal over the next 5 years

Unaudited  
Based on Estimates



Ray Water Company  
Projected Cash Flows  
For the Years Ended

Exhibit  
Schedule F-3

Line No.		2009	2010	2011	2012	2013
3	<u>Cash from Operations</u>					
4	Beginning Cash Balance	\$ 250,598	\$ 219,674	\$ 31,328	\$ 118,311	\$ 225,025
6	Net Income	(99,248)	(127,461)	(2,121)	35,419	41,978
7	Add Depreciation expense	165,441	187,534	190,750	190,675	191,321
8	Add Amortization of Rate Case Expense	-	-	-	-	-
9	<u>Total Cash From Operations</u>	\$ 66,193	\$ 60,073	\$ 188,629	\$ 226,094	\$ 233,299
11	<u>Cash from Financing</u>					
13	Deposits (security) collected	\$ -	\$ -	\$ -	\$ -	\$ -
14	Long-Term Debt	500,000	-	-	-	-
15	Short-Term Debt	-	-	-	-	-
16	Common Equity	-	-	-	-	-
17	Advances in Aid of Const.	-	-	-	-	-
18	Contribution in Aid of Const.	-	-	-	-	-
19	Meter Deposits Collected	-	-	4,843	9,883	15,283
20		-	-	-	-	-
21		-	-	-	-	-
22	<u>Total Cash from Financing</u>	\$ 500,000	\$ -	\$ 4,843	\$ 9,883	\$ 15,283
24	<u>Uses of Cash:</u>					
26	Long-term Debt Repayment	\$ 32,910	\$ 35,872	\$ 39,100	\$ 42,619	\$ 46,455
27	Repayments of Short-Term Debt	-	-	-	-	-
28	Advances Refunded	61,631	59,970	59,970	73,699	79,385
29	Meter Deposit Refunded	2,577	2,577	2,577	3,061	4,589
30	Deposit (Security) refunded	-	-	-	-	-
31	Capital Improvements - Plant	500,000	150,000	4,843	9,883	15,283
32	Acquisition of DRA	-	-	-	-	-
33	<u>Total Cash Uses</u>	\$ 597,117	\$ 248,418	\$ 106,490	\$ 129,262	\$ 145,712
34						
35	<u>Increase (decrease) in Cash</u>	\$ (30,924)	\$ (188,346)	\$ 86,982	\$ 106,715	\$ 102,870
36						
37	<u>Ending Cash Balance</u>	\$ 219,674	\$ 31,328	\$ 118,311	\$ 225,025	\$ 327,895
38						
39						
40	Interest Income: Assuming Earning Equal to Inflation Factor on Average Cash Balance					
41	Average Cash Balance	\$ 235,136	\$ 125,501	\$ 74,819	\$ 171,668	\$ 276,460
42	Interest Earned (2% on average balance)	\$ 4,703	\$ 2,510	\$ 1,496	\$ 3,433	\$ 5,529
43				Unaudited		
				Based on Estimates		

Ray Water Company  
Financial Analysis

Exhibit  
Schedule F-4

Selected Financial Data						
		2009	2010	Projected Year 2011	2012	2013
1	Operating Income	\$ (58,950)	\$ (87,933)	\$ 35,192	\$ 67,276	\$ 67,904
2	Depreciation and Amortization	165,441	187,534	190,750	190,675	191,321
3	Income Tax Expense	50	50	50	9,372	11,108
4	Interest Expense	45,000	42,038	38,810	35,291	31,455
5	Prepayment of Principle	32,910	35,872	39,100	42,619	46,455
6	Debt Service Reserve	-	-	-	-	-
7	TIER					
16	[1+3] + 4	(1.31)	(2.09)	0.91	2.17	2.51
8	DSC					
18	[1+2+3] + [4+5+6]	1.37	1.28	2.90	3.43	3.47
9	Short-term Debt	\$ -	0.00% \$ -	0.00% \$ -	0.00% \$ -	0.00%
10	Long-term Debt	\$ 467,090	29.88% \$ 431,218	30.81% \$ 392,118	28.86% \$ 349,498	25.86% \$ 303,043
11	Common Equity	\$ 1,095,959	70.12% \$ 968,498	69.19% \$ 966,377	71.14% \$ 1,001,796	74.14% \$ 1,043,774
12	Total Capital	\$ 1,563,049	100.00% \$ 1,399,716	100.00% \$ 1,358,495	100.00% \$ 1,351,294	100.00% \$ 1,346,817
28						100.00%
30						

Unaudited  
Based on Estimates

000/1000000

## EMERGENCY SERVICE AGREEMENT

### Potable Water System

This Agreement is entered into this 12<sup>th</sup> day May 2000, by and between Tucson Water and Ray Water Company (hereinafter "Company").

WHEREAS, the City has annexed certain areas within the service area of the Ray Water Company; and

WHEREAS, an interconnection with the City of Tucson water system is necessary to provide adequate flows to those annexed areas in the event of a fire; and

WHEREAS, in specific consideration of Tucson Water providing emergency service(s) to the Company, Company agrees, on behalf of itself and its heirs, successors and assigns, to enter into certain covenants to Tucson Water regarding Company's proposed use of said water service.

NOW THEREFORE, City and Company agree, covenant and warrant as follows:

#### I. DEFINITIONS.

**Certified Area:** Geographical boundary of the Company's water service area, as legally described and authorized by the Arizona Corporation Commission.

**Company:** A private or public corporation, water district, cooperative, or government, authorized by the appropriate local, state, national or federal agency(s) to purvey, sell or distribute water to users or customers within the Tucson Active Management Area; and the entity requesting emergency service under this Agreement.

**Discontinuance Notice:** Written notice of termination of service, sent via U.S. mail, to Company to notify of turn-off, or removal of metered service and cancellation of Agreement.

**Potable Water:** Groundwater or treated surface water for residential, commercial, or industrial domestic use only.



Systems Failure: Severe water supply deficiency due to a substantial breakdown or incapacitation of the Company's production or delivery system, including, but not limited to pumping plant equipment, wells, major pipelines or contamination which cannot be immediately rectified. System failure does not include on-going supply deficiencies.

Temporary Emergency Service: Metered interconnection between the Company and Tucson Water, normally closed, to be opened by Tucson Water in an emergency to supply company potable water or reclaimed water.

## II. COVENANTS.

### A. Type of Service, Activation.

1. The water service shall be designated as a temporary emergency service for distribution for fire flow or other public service emergency purposes only.
2. The City of Tucson will be responsible for the costs of installing, operating, and maintaining a pressure-activated valve, metering equipment, backflow prevention equipment, flow sensor, and report back system to Tucson Water's Central Control. The City of Tucson will also be responsible for the costs of installation, maintenance, and testing of any fire hydrants connected to the Ray Water Company System within the boundaries of the City of Tucson.
3. The Company represents that its distribution system meets all requirements to accept a flow of 1000 gpm.

### B. Service Use Duration, Time Limit.

1. The interconnection is to be used only during fire events or other public service emergencies within Ray Water Company's service area.
2. There will be no charge for water used during a fire event or other public service emergency.
3. If water served through the interconnection to the Ray Water Company is not supported by documentation of a fire event or other public service emergency, Tucson Water will bill Ray Water Company for such water at the rate of 2 (two) times the standard rate for commercial potable water. Fire events or public service emergencies may be documented by any reliable evidence, including written and verbal sources. Tucson Water has sole

discretion to determine whether an emergency has occurred. Tucson Water's decision concerning the use of the water may be overcome only by a showing that the decision was arbitrary and capricious as a matter of law.

C. Capacity Limit.

1. The proposed water service shall be metered by the type and size of meter deemed adequate by Tucson Water, based upon an estimated peak flow of 1,000 gpm. This flow is the maximum allowable capacity.

D. Location

1. The meter(s) shall be set by Tucson Water at the boundary of, or within, the Company's certificated area.
2. The service location will be identified in an effort to provide the most efficient emergency service to the Company. However, Tucson Water will make the final site determination and Company agrees to accept the service at the pressure and flow available.

E. Limitations

1. This emergency service connection shall not be used for the purpose of resolving on-going supply deficiencies or for the purpose of meeting either day-to-day or peak demands in the Company's water system.
2. Tucson Water retains the right to discontinue or deny emergency service based on Tucson Water's ability to meet its customers' needs.
3. Both parties agree to abide by all local, state and federal regulations, laws and ordinances, and if notification is made by a regulatory or enforcement authority that a violation has occurred, this Agreement may be terminated by either party without consent of the other party.
4. This emergency service is not intended to extend Tucson Water's assured water supply to the Applicant.

F. Terms of Agreement, Extension.

1. This Agreement shall not take effect until after the interconnection installed by Tucson Water has passed a final inspection, and shall

remain in effect for no longer than 10 years after the completion of this inspection, or this Agreement may be terminated upon execution of other forms of water service agreements.

2. An addendum, signed by both parties, is required to vary from the terms of this Agreement.

### III. CERTIFICATION

The Company certifies that the Company's water system is sufficiently sized and maintained to provide its customers continuous, high quality water service, and that emergency service from Tucson Water will only be needed for fire flow or other public safety events.

### IV. HOLD HARMLESS.

The company shall indemnify, defend, and hold the City of Tucson, its Mayor and Council, officers and employees, boards, for any damage to property (real or personal) or injury to persons, including death, which arise or are alleged to have arisen, in whole or in part, as a result of the delivery or non-delivery of this emergency water service, including excess or deficient water pressure, under this Agreement; provided however: PMR

(A) Tucson Water will deliver to the Temporary Emergency Service Water Meter water which meets all Federal and State quality standards. The Company does not hold City harmless from all liability for City failing to provide water to Company that meets all Federal and State quality standards.

(B) The Company will hold the City harmless from all liability for any contamination that may occur beyond the Temporary Emergency Water Service Meter.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed, all as of the date first above written.

BY:

[Signature]  
Authorized Signature

Secretary, Pop Water Co, Inc.  
Title

STATE OF ARIZONA     )  
                                      )  
COUNTY OF PIMA     )

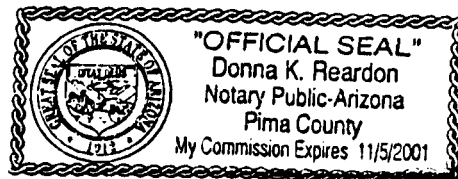
This instrument was acknowledged before me this 13TH day of MAY,  
2000, by RHONDA M. ROSENBAUM.

IN WITNESS THEREOF, I have hereunto set my hand and official seal.

Donna K. Reardon  
Notary Public

My commission expires:

11-5-2001



ACCEPTED BY TUCSON WATER,

BY: [Signature]

APPROVED AS TO FORM:

[Signature]  
CHRISTOPHER AVERY  
Senior Assistant City Attorney

I:\ca\00-04RayWaterCoEmAgreement.doc

# **Ray Water Company / Financing**

W-01380A-09-0106

Evidentiary Hearing  
December 17, 2009  
Tucson, Arizona

Exhibit A-4  
Applicant Exhibit No. 4

Contains 6 DVDs attached to back of  
document, pages 21 and 22





1  
2  
3  
4 **BEFORE THE ARIZONA CORPORATION COMMISSION**

5  
6 **Docket No. W-01380A-09-0106**  
7

8  
9  
10  
11  
12 **DIRECT TESTIMONY**  
13 **of**  
14 **Marvin F. Glotfelty, R.G.**

15  
16 **On Behalf of Ray Water Company, Inc.**  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

1

2

3

4 **TABLE OF CONTENTS**

5

6

7 TABLE OF CONTENTS..... i

8 I. INTRODUCTION ..... 1

9 II. SUMMARY..... 2

10 III. DETAILED TESTIMONY..... 3

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**DIRECT TESTIMONY OF MARVIN F. GLOTFELTY, R.G.**  
**On Behalf of Ray Water Company, Inc.**

I. **INTRODUCTION**

Q. **Please state your name and business address.**

A. My name is Marvin Glotfelty, R.G., and my business address is 6155 E. Indian School Road, Suite 200, Scottsdale, Arizona, 85251.

Q. **By whom are you employed and in what capacity?**

A. I am employed by Clear Creek Associates as a Principal Hydrogeologist.

Q. **Please briefly describe your educational background and work experience.**

A. I have a Bachelors and Masters degree in Geology from Northern Arizona University, and I have been involved with hydrogeological studies in Arizona for over 25 years. I am a Registered Professional Geologist in Arizona and California, and also a Licensed Well Driller in Arizona.

Q. **Please describe your involvement with previous work for Ray Water Company.**

A. In my capacity as Principal Hydrogeologist, I have evaluated existing Ray Water Company wells and have overseen the installation of new wells in the Ray Water Company system, to replace older wells that have exceeded their useful life.

Q. **What is the purpose of your testimony?**

1 A. My testimony presents my professional opinion as to the structural stability and  
2 overall reliability of the existing wells in the Ray Water Company system, and  
3 whether an additional well would be warranted to meet the water demand of the Ray  
4 Water Company system.

5  
6 II. SUMMARY

7 Q. **Please summarize your conclusions regarding the matters addressed in your**  
8 **testimony.**

9 A. Based on my review of the well videos of Ray Water Company Wells No. 1, 3, 4, 5,  
10 and 6, the existing well field is not structurally stable, and is inadequate to serve as a  
11 reliable water source for the water distribution system. The videos for Wells 1, 3, 4, 5,  
12 and 6 indicated corrosion holes and structural failures in the well casing and well  
13 screen for these wells. The videos for Wells No. 2 and 7 were not reviewed, because  
14 both those wells were recently drilled and constructed. Wells No. 1 and No. 5 are  
15 currently inactive, but were evaluated to provide additional clarification of subsurface  
16 conditions in the Ray Water Company service area.

17  
18 There is a reasonable probability that Wells 3, 4, and 6 could structurally fail  
19 (collapse) at essentially any time, and such a well failure would probably occur during  
20 peak water pumping periods, when the wells are being relied upon by Ray Water  
21 Company to the greatest extent. Loss of these wells would result in a reduction of the  
22 system's water production capability by approximately 700 gpm, which is almost 50  
23 percent of the total system water supply.  
24  
25  
26

1 **III. DETAILED TESTIMONY REGARDING THE PROJECT WATER RESOURCES**

2  
3 **Q. What information and/or records did you review for this testimony?**

4  
5 **A.** I reviewed well records of the pump horsepower, water production, year drilled,  
6 casing diameter, well depth, and static water level for Ray Water Company Wells No.  
7 1 through 7. The static water levels of all the Ray Water Company wells are  
8 reportedly declining by approximately one foot per year. The Ray Water Company  
9 well records are summarized below:

10

Well No. (operation status)	Pump HP	GPM	Year Drilled	Casing Diameter	Well Depth	Static Water Level*
#1 (inactive)	30	175	1957	10 inches	310 feet	159 feet
#2 (active)	75	400	2007	14 inches	605 feet	293 feet
#3 (active)	40	250	1969	12 inches	458 feet	198 feet
#4 (active)	15	125	1973	12 inches	404 feet	195 feet
#5 (inactive)	15	75	1963	12/ 8 inches	331 feet	194 feet
#6 (active)	60	325	1983	12 inches	642 feet	341 feet
#7 (active)	75	325	2007	14 inches	596 feet	324 feet

15 \*Static water level depth based on latest available well video survey.

16  
17 **Q. Did you review any other information?**

18  
19 **A.** Yes, I reviewed video surveys for all the older Ray Water Company wells (Wells No.  
20 1, 3, 4, 5, and 6). I did not review videos from the newer wells (Well 2D and Well 7),  
21 because those wells were installed very recently, and do not present structural stability  
22 concerns. The older well videos that I reviewed included:

- 23 i. Well 1 – video survey on February 16, 2005;
- 24 ii. Well 3 – video surveys on May 29, 2008 (before cleaning), June 5, 2008 (after
- 25 cleaning, and June 9, 2008 (after casing patch installation);
- 26

- iii. Well 4 – video survey on March 10, 2006;
- iv. Well 5 – video survey on January 19, 2005; and
- v. Well 6 – video survey on December 1, 2008.

**Q. Please briefly describe your findings and conclusions from your review of the February 16, 2005 Well No. 1 video, and the other available data for this well.**

**A.** Ray Water Company Well No. 1 is located at 3549 E. Frankfort in Tucson, Arizona, and has ADWR Registration Number 55-609462. This well was originally drilled in 1957 by a cable tool rig. Well No. 1 has a 10-inch diameter steel well casing, and a total depth of 310 feet (when drilled). The static water level was 159 feet below land surface in 2005. This well reportedly produced between approximately 150 gpm and 175 gpm for about 45 years, but is currently inactive.

In February 2005, when replacing the pump and motor for this well, a video was performed, which indicated vertical splits in the well casing at several depth intervals. The casing splits included 166 to 168 feet; 174 to 177 feet; 186 to 206 feet; and 232 to 250 feet. Associated with the vertical casing splits are multiple corrosion holes, and the overall condition and structural integrity of the well is extremely poor. A photograph (screen capture from well video) of this well is presented in Attachment A. This well has been out of service since January 2005. Due to its age (52 years old) and the history of other wells in the Ray Water Company service area, Well No. 1 is considered to have come to the end of its economically useful life.

1 Q. Please briefly describe your findings and conclusions from your review of the  
2 Well No. 3 videos, and the other available data for this well.

3  
4 A. Ray Water Company Well No. 3 is located at 5710 S. Herpa in Tucson, Arizona, and  
5 has ADWR Registration Number 55-609464. Well No. 3 was drilled by a cable tool  
6 rig in 1969. It has a 12-inch diameter machine perforated casing, a total depth of 458  
7 feet, and a static water level of 198 feet below land surface in June 2008. Well No. 3  
8 reportedly produces approximately 250 gpm. In 2008, a well video showed that the  
9 perforations were significantly blocked, so the well was cleaned by brushing and  
10 bailing. After the well was cleaned, the condition of the well casing (which was  
11 previously obscured by the accumulated scale) could be observed. A large corrosion  
12 hole in the wall of the steel casing was observed at a depth of approximately 347 feet.  
13 A photograph (screen capture from the well video) of the corrosion hole from at 347  
14 feet in this well is presented in Attachment A. A casing patch was subsequently  
15 placed over the corrosion hole. The 4-foot long casing patch extends from 345 feet to  
16 349 feet, and a photograph of the top edge of the patched casing is also shown in  
17 Attachment A. Due to its age (40 years old) and the history of other wells in the Ray  
18 Water Company service area, Well No. 3 is considered to be near the end of its  
19 economically useful life.

20  
21 Q. You mentioned the casing patch from 345 feet to 349 feet in Well No. 3. Why  
22 couldn't additional casing patches be installed to address all the corrosion  
23 problems in this well?  
24  
25  
26

1 A. Corrosion holes in steel well casings are rarely a localized condition, and typically  
2 reflect the overall corrosive characteristics of the aquifer material surrounding the  
3 well. This situation is indicated by many of the wells in the Ray Water Company  
4 system, which have corrosion holes at many locations within each well. Casing  
5 patches can be used to cover isolated problem areas, but as the corrosion becomes  
6 more extensive in older wells, the application of additional casing patches will not  
7 serve as effective "band-aids" to cover multiple problem areas, and will not provide  
8 structural stability of the overall well.  
9

10 Q. **Please briefly describe your findings and conclusions from your review of the**  
11 **Well No. 4 video, and the other available data for this well.**  
12

13 A. Ray Water Company Well No. 4 is located at 4410 E. Rex in Tucson, Arizona, and  
14 has ADWR Registration Number 55-609465. Well No. 4 was drilled using a cable  
15 tool rig in 1973. It has a 12-inch diameter steel well casing with machined  
16 perforations. The depth of this well is reportedly 404 feet, and the static water level  
17 was 195 feet below land surface in March 2006. The well reportedly produced  
18 between 250 to 300 gpm for many years, but the current water production from this  
19 well is reportedly about 125 gpm. The well video from March 2006 shows  
20 extensively plugged perforations and also some small casing holes. An example of  
21 this is presented in Attachment A, which includes a photograph (screen capture from  
22 the well video) of a corrosion hole in the casing at a depth of 248 feet. Due to its age  
23 (36 years old) and the history of other wells in the Ray Water Company service area,  
24 Well No. 4 is considered to be near the end of its economically useful life.  
25  
26



1 Q. Please briefly describe your findings and conclusions from your review of the  
2 Well No. 5 videos, and the other available data for this well.  
3

4 A. Ray Water Company Well No. 5 is located at 6100 S. Columbus in Tucson, Arizona,  
5 and has ADWR Registration Number 55-609466. Well No. 5 was drilled using the  
6 cable tool technique in 1963. It reportedly has a 12-inch diameter steel casing and a  
7 total depth of 331 feet. The static water level of this well was 194 feet in January  
8 2005. The well produced approximately 200 gpm for many years, but the well was  
9 taken out of service in 2004, after a well video revealed a significantly damaged  
10 casing with over 30 significant holes in the well casing. Photographs (screen captures  
11 from the well video) of the holes in the casing at various depths are presented in  
12 Attachment A. As seen in Attachment A, at a depth of about 287 feet, the well casing  
13 is extensively corroded away, with approximately 1/3 of the casing completely gone.  
14 An 8-inch diameter PVC well liner and gravel pack envelope were reportedly installed  
15 in Well No. 5 to address the instability and sand invasion issues that resulted from the  
16 multiple corrosion holes in the casing. Ray Water Company records indicate that after  
17 installation of the liner, the well was then equipped with a 75 gpm pump, but the well  
18 could not sustain that pumping rate without breaking suction at the pump intake  
19 (which results from excessive water-level declines). Well No. 5 has not been in use  
20 since 2005. Due to the age (46 years old) and extensive corrosion of Well No. 5,  
21 along with the history of other wells in the Ray Water Company service area, Well  
22 No. 5 is considered to have reached the end of its economically useful life.  
23

24 Q. Please briefly describe your findings and conclusions from your review of the  
25 Well No. 6 videos, and the other available data for this well.  
26

1  
2 A. Ray Water Company Well No. 6 is located at 4450 E. Rex in Tucson, Arizona, and  
3 has ADWR Registration Number 55-800420. Well No. 6 was drilled in 1983 using  
4 the rotary drilling method. It was constructed with a gravel packed envelope  
5 surrounding a 12-inch diameter low-carbon steel casing and wire-wrapped screen.  
6 The total depth of Well No. 6 is reportedly 642 feet, and the static water level of this  
7 well was at 341 feet below land surface in December 2008. The well reportedly  
8 produced approximately 325 gpm, but video surveys in 2006 and also in 2008  
9 indicated blocked perforations and holes in the well casing and well screen. The static  
10 water level in this well reportedly dropped 28 feet in the 8-year period between 1998  
11 and 2006 (average decline of 3.5 feet per year). The 2008 video indicated a decline in  
12 the static water level of an additional 13 feet in the 2-year period from 2006 to 2008  
13 (average decline of 6.5 feet per year). Review of the December 1, 2008 video for this  
14 well indicates that the well has a split casing at a depth of about 293 feet, which is  
15 allowing cascading water to enter the well (Attachment A). Cascading water such as  
16 this is commonly of poor quality, and may lead to pump damage and accelerated scale  
17 growth and corrosion of the well casing. The December 2008 video of Well No. 6  
18 also indicates multiple locations with corrosion holes and casing splits (Attachment  
19 A). In the screened interval of Well No. 6, the wire-wrapped screen was observed to  
20 be ripped at a depth of about 541 feet, with filter pack and native sediment spilling in  
21 through the ripped area (Attachment A). Due to its age (26 years old), extensive  
22 corrosion, and damaged screen, Well No. 6 is considered to have reached the end of its  
23 economically useful life.  
24  
25  
26

1 Q. **Why is the rip in the wire-wrap screen such a concern? Could the well screen**  
2 **simply be patched?**

3  
4 A. Wire-wrap screen is manufactured with a helically wound wire that encircles a series  
5 of vertical rods, which extend along the length of each screen section. The horizontal  
6 wire is welded to the vertical rods at each intersection. The numerous welded  
7 connections between the vertical rods and the horizontal wire collectively provide  
8 adequate compressive strength to allow the well screen to hold the well open, despite  
9 the stresses applied by the surrounding unconsolidated native sediment and gravel  
10 pack. Once the sequence of connecting welds that bind the horizontal and vertical  
11 steel wires together has been breached, the well screen loses its structural integrity and  
12 becomes immediately very fragile and susceptible to structural failure. Wire-wrapped  
13 well screen has a relatively low bursting strength, so it would not be a good candidate  
14 for installation of a casing patch.

15  
16 Q. **Can you summarize your professional opinion regarding the well videos and well**  
17 **records of the Ray Water Company wells you reviewed?**

18  
19 A. The structural stability of Wells No. 1 and No. 5 are extremely poor, and those wells  
20 should remain out of service. The structural stability of Wells No. 3, No. 4, and No. 6  
21 is quite weak, and these wells could structurally fail at essentially any time. One or  
22 more additional wells would be used by Ray Water Company to augment the water  
23 supply that is provided by these wells during periods of peak demand, and such a well  
24 would be extremely useful to Ray Water Company to provide a redundant water  
25 supply in the somewhat likely event of a failure of one of the older wells in the  
26

1 system. Failure of the at-risk wells that are currently active (Wells No. 3, No. 4, No.  
2 6) represent a potential reduction of the system's water production capability by  
3 approximately 700 gpm, which is almost 50 percent of the total system water supply.  
4 An additional well would used and useful, and would increase the reliability and cost-  
5 efficiency of the Ray Water Company system. Therefore, a new well is  
6 recommended, to serve as a replacement for one of the inactive wells (Well No. 1, or  
7 Well No. 5).

8  
9 **Q. Does this conclude your direct testimony?**

10 **A. Yes, it does.**  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**ATTACHMENT A**  
**Images from Well Videos**





*Side view of Well No. 1 at 166 feet\* below land surface, showing vertical split and hole in well casing.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).





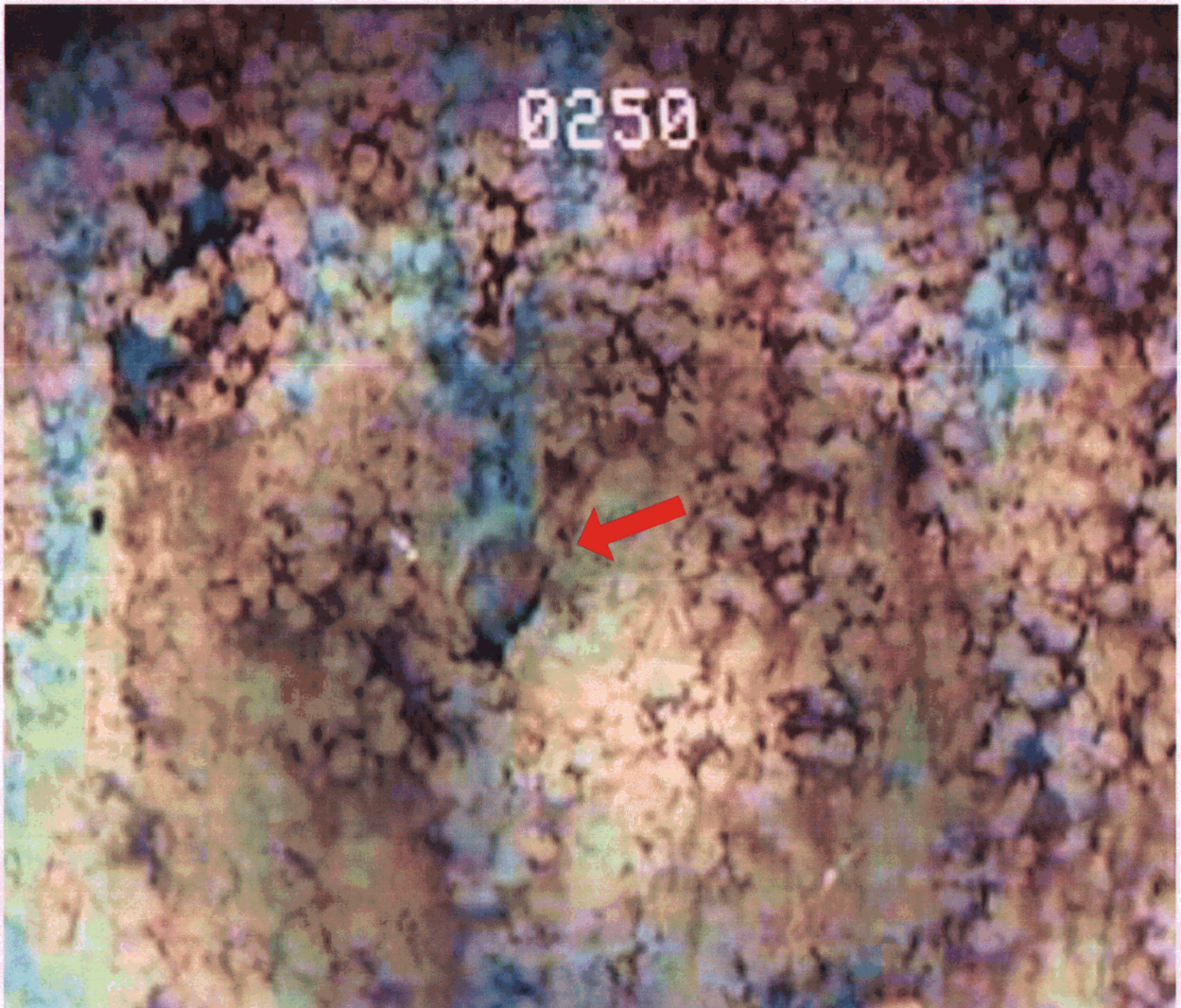
*Side view of Well No. 3 at 347 feet\* below land surface, showing a corrosion hole in the well casing.*



*Side view of Well No. 3 at 345 feet\* below land surface, showing the top edge (see arrow) of the casing patch that was installed from 345 to 349 feet.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).





*Side view of Well No. 4 at 248 feet\* below land surface, showing a small corrosion hole (see arrow) in the well casing.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).





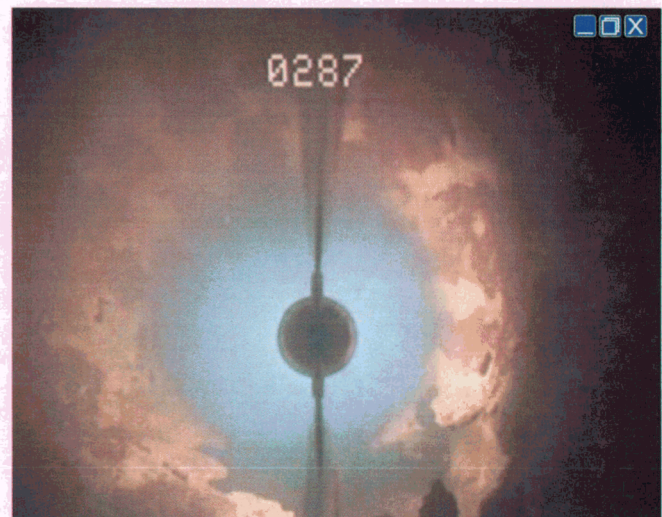
*Side view of Well No. 5 at 212 feet\* below land surface, showing large corrosion hole in the well casing.*



*Side view of Well No. 5 at 215 feet\* below land surface, showing multiple corrosion holes in the well casing.*



*Side view of Well No. 5 at 222 feet\* below land surface, showing multiple corrosion holes in the well casing.*

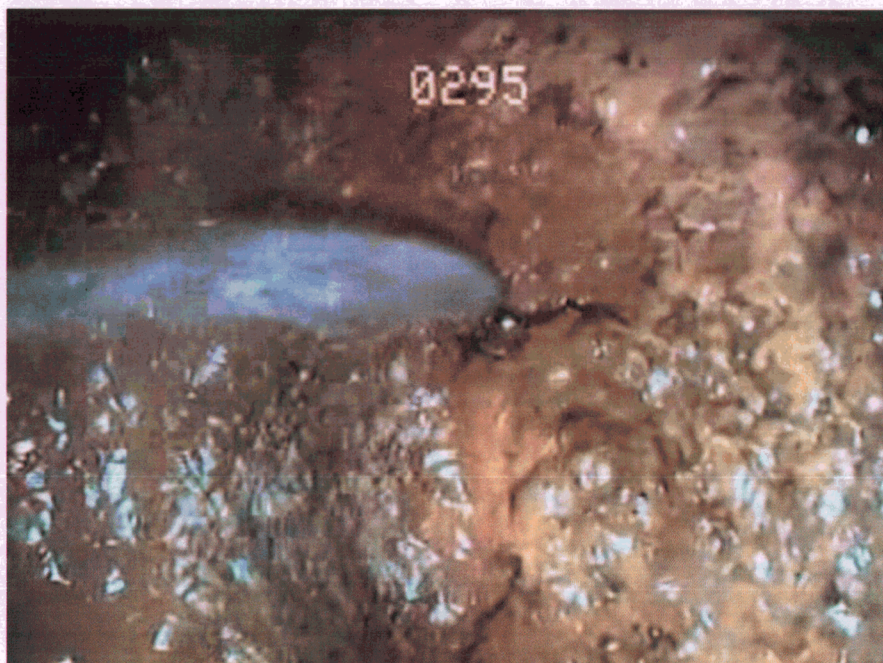
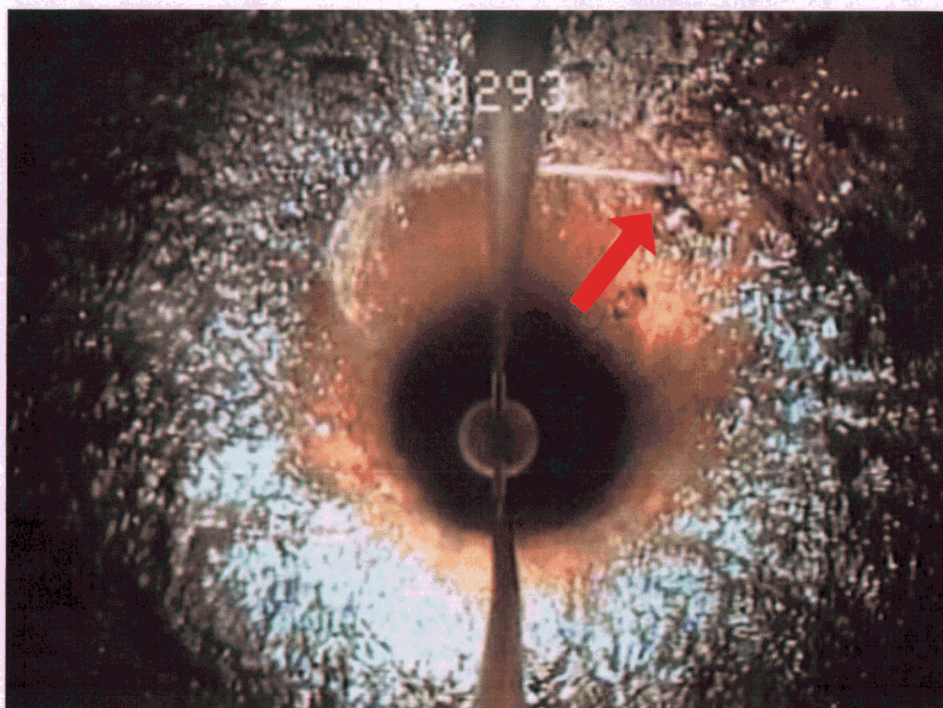


*Downward view of Well No. 5 at 287 feet\* below land surface, showing extensive corrosion, with about 1/3 of well casing completely gone.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).



*Downward view of Well No. 6 at 293 feet\* below land surface, showing cascading water (see arrow) entering the well through a hole in the split casing.*



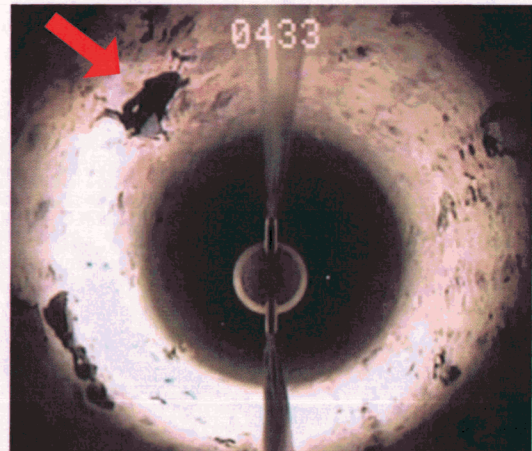
*Side view of Well No. 6 at 293 feet\* below land surface, showing a close up view of cascading water entering the well.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).

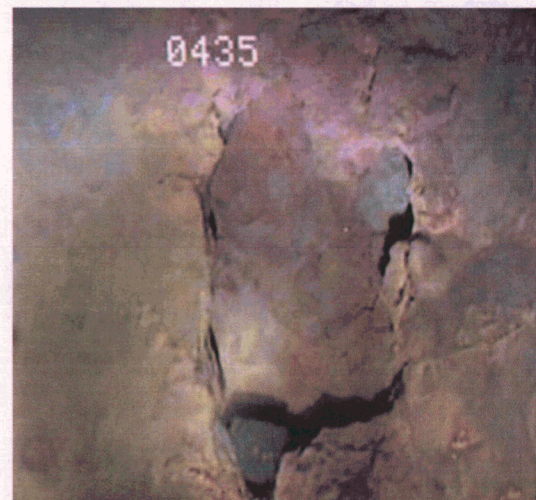




*Side view of Well No. 6 at 391 feet\* below land surface, showing close up view of split well casing and gravel pack coming through.*



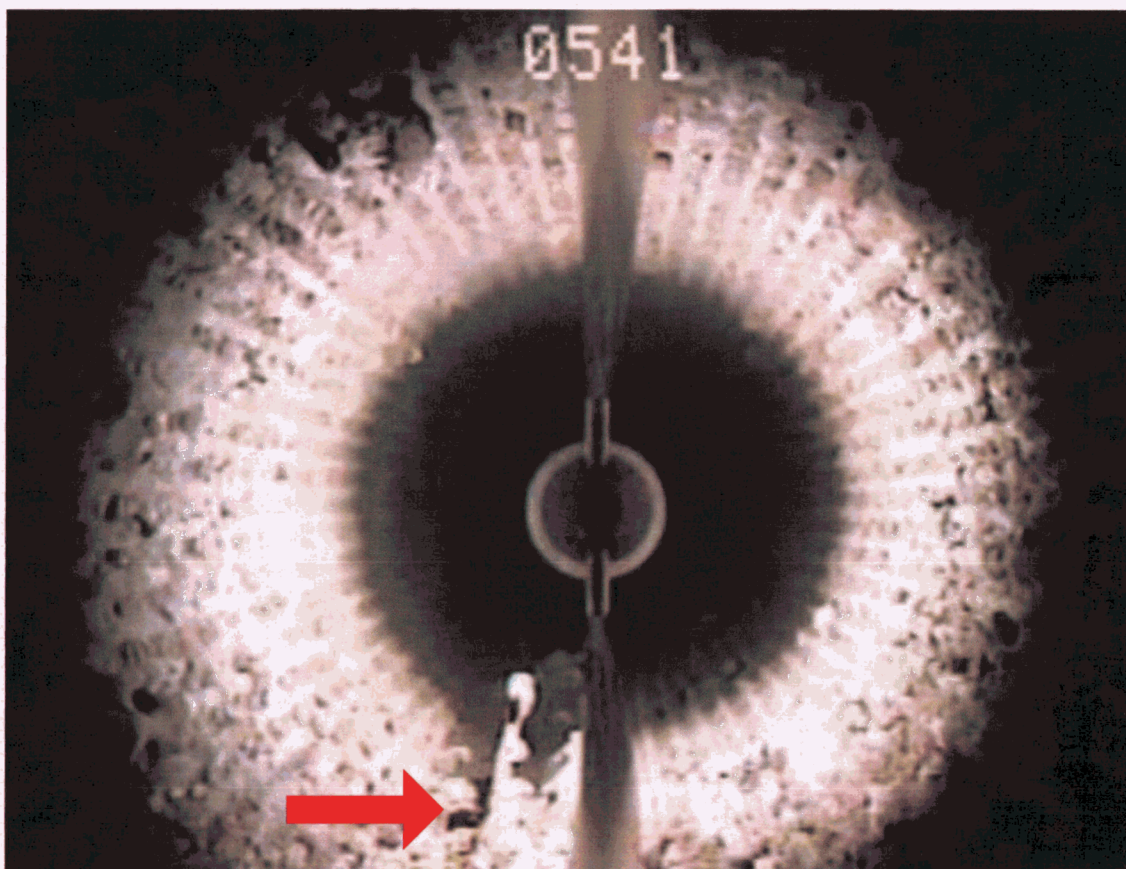
*Downward view of Well No. 6 at 433 feet\* below land surface, showing corrosion hole in well casing (see arrow).*



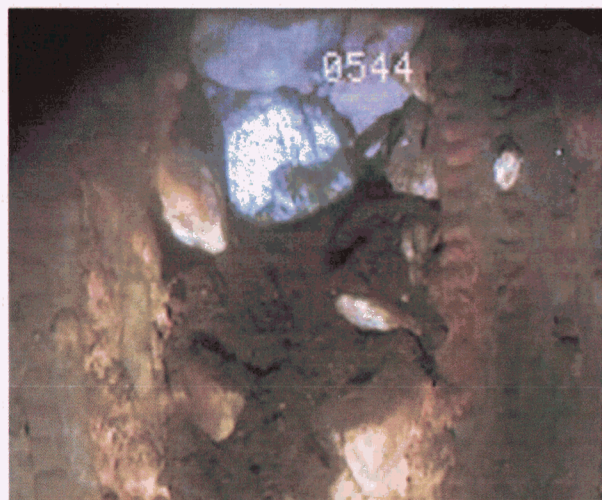
*Side view of Well No. 6 at 433 feet\* below land surface, showing detail view of corrosion hole in well casing.*

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).





***Downward view of Well No. 6 at 541 feet\* below land surface, showing ripped wire-wrap well screen (see arrow).***



***Side view of Well No. 6 at 542 feet\* below land surface, showing close up view of ripped well screen with gravel pack coming through.***



***Side view of Well No. 6 at 542 feet\* below land surface, showing close up view of ripped well screen with gravel pack coming through.***

**\* Note:** The depth indicated is based on the downward-looking camera lens. The side-view camera is positioned two feet above the downward-looking lens (e.g., a downward view at a depth of 100 feet is the same location as a 102-foot side view).

# **Compact Disc**

**-Application for approval of a financing  
application**

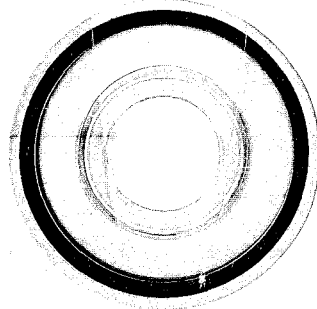
**Ray Water Company, Inc.**

**TO REVIEW SEE DOCKET SUPERVISOR**

**DOCKET #  
W-01380A-09-0106**

**Ray Water**

**Well #1**

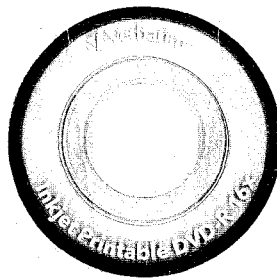


**2/16/2005**

**CLEAR  
CREEK  
ASSOCIATES**

**Ray Water**

**Well #3**

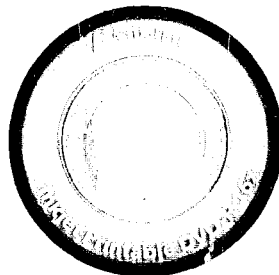


**5/29/2008 - 6/5/2008**

**CLEAR  
CREEK  
ASSOCIATES**

**Ray Water**

**Well #3**



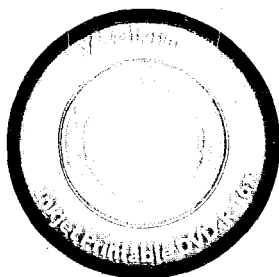
**6/9/2008**

**CLEAR  
CREEK  
ASSOCIATES**



**Ray Water**

**Well #4**



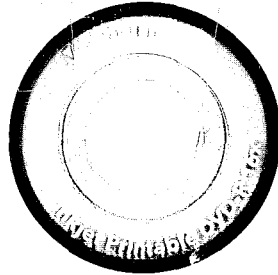
**3/10/2006**

**CLEAR  
CREEK  
ASSOCIATES**



**Ray Water**

**Well #5**

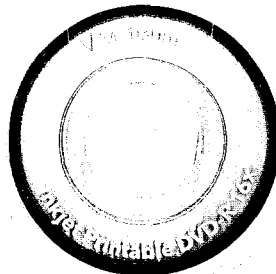


**1/19/2005**

**CLEAR  
CREEK  
ASSOCIATES**

**Ray Water**

**Well #6**



**12/2008**

**CLEAR  
CREEK  
ASSOCIATES**



1  
2  
3  
4 **BEFORE THE ARIZONA CORPORATION COMMISSION**

5  
6 **Docket No. W-01380A-09-0106**



13 **DIRECT TESTIMONY**  
14 **of**  
15 **Kara D. Festa, P.E.**  
16

17 **On Behalf of Ray Water Company, Inc.**  
18  
19  
20  
21  
22  
23  
24  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**TABLE OF CONTENTS**

TABLE OF CONTENTS.....	i
I. INTRODUCTION .....	1
II. SUMMARY.....	2
III. DETAILED TESTIMONY.....	3

**DIRECT TESTIMONY OF KARA D. FESTA, P.E.**  
**On Behalf of Ray Water Company, Inc.**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

**A.** My name is Kara D. Festa, P.E., and my business address is 4001 E. Paradise Falls Drive, Tucson, Arizona, 85712.

**Q. By whom are you employed and in what capacity?**

**A.** I am employed by WestLand Resources, Inc. (WestLand), as a civil engineer, and I am a Principal of the company.

**Q. Please briefly describe your educational background and work experience.**

**A.** I have a Bachelors degree in Civil Engineering and Masters degree in Environmental Engineering from the University of Arizona. I have been working in the engineering field, primarily in water and wastewater planning and design, for 14 years, 11 of those years at WestLand. I am Registered Professional Engineer in Arizona and New Mexico.

**Q. Please describe your involvement with previous work for Ray Water Company.**

**A.** I have been working on water system engineering projects with Ray Water Company since 2000, as a project engineer, project manager, and then in my capacity as Principal with WestLand. My work with Ray Water Company has included water system hydraulic modeling and master planning, design for pipelines, booster stations, reservoirs, and wells, and general operational and engineering assistance and advice.

1 I have overseen the equipment and site design for two new wells in the Ray Water  
2 Company system, to replace older wells that exceeded their useful life. In addition, I  
3 have assisted the water company during well outages, to help with troubleshooting,  
4 selection of new well equipment, review of well videos and providing engineering  
5 recommendations.  
6

7 **Q. What is the purpose of your testimony?**

8 **A.** My testimony presents my professional opinion as to the existing reliable well  
9 infrastructure and overall capacity and reliability of the Ray Water Company system,  
10 and whether an additional well would be warranted to meet the demands of the Ray  
11 Water Company system.  
12

13 **II. SUMMARY**

14 **Q. Please summarize your conclusions regarding the matters addressed in your**  
15 **testimony.**

16 **A.** The Ray Water Company has had a total of seven well sites in operation at various  
17 times during the nine years I have worked with the water company. The water  
18 company has two wells in good operating condition, Well Nos. 2 and 7, which were  
19 drilled in 2007. Well No. 2 has been replaced three times at the same site due to two  
20 well casing failures and one attempted replacement well which had inadequate  
21 production capacity. Well No. 2 was 33 years old the first time it was replaced and 12  
22 years old the second time it was replaced. The water company has also experienced  
23 two other well casing failures, Well Nos. 1 and 5, during the past five years. Well  
24 Nos. 1 and 5 were both over 40 years old when they were taken out of service in 2005.  
25 Well Nos. 3, 4, and 6 have experienced a number of issues with the well casings and  
26

1 pumping capacities during the period that I have worked with Ray Water Company.  
2 Well Nos. 3, 4, and 6 range in age from 26 to 40 years old. There have been a number  
3 of rehabilitation and repair procedures performed on these wells. Based on the history  
4 of the wells in this water system, the water company should be undertaking the  
5 replacement of the capacity of those wells.  
6

7 The existing capacity of the wells in the Ray Water Company system is approximately  
8 1,425 gallons per minute (gpm). Of this capacity, 725 gpm is the reliable capacity  
9 associated with the two newest wells. The peak daily demand that is required in this  
10 water system is currently approximately 960 gpm, and is expected to increase to at  
11 least 1,120 gpm. The three other wells in the system have an equipped capacity of  
12 700 gpm. These wells cannot be considered a reliable long-term supply due to the  
13 condition of the well casings. It takes a considerable amount of time to design, permit,  
14 drill and equip a replacement well, and the water company is prudent in planning to  
15 replace this capacity before the wells fail.  
16

17 **III. DETAILED TESTIMONY REGARDING WELL CAPACITY**  
18

19 **Q. What information and/or records did you review for this testimony?**  
20

21 **A.** I reviewed well capacity information and historical data regarding the well drilling,  
22 well inspections, and pumping equipment installations for Ray Water Company Well  
23 Nos. 1 through 7. The currently equipped capacity totals approximately 1,425 gpm.  
24 The current equipped capacities and the year drilled are provided in the table below:  
25  
26

Well No. (operation status)	GPM	Year Drilled
#1 (inactive)	-	1957
#2 (active)	400	2007
#3 (active)	250	1969
#4 (active)	125	1973
#5 (inactive)	-	1963
#6 (active)	325	1983
#7 (active)	325	2007
<b>Total</b>	<b>1,425</b>	

Q. **How do you typically determine what well capacity should be provided in a water system?**

A. A water company must have sufficient well capacity to meet the peak day usage, because the well source water has to be able to supply the demands of the water system during the highest peak demand day of the year. This typically occurs during early summer. The peak month for Ray Water Company has been July for the last few years. There can be a series of days of very high demand where the water company is essentially pumping at or near peak day for a sustained period. In that situation, wells would be basically running 24/7 just to keep the reservoirs full enough for the booster stations to be able to withdraw and meet system demands. Because we never know when a well outage will occur due to casing failure or pumping and electrical equipment issues, the standard engineering recommendation is to be able to supply peak day demand with the largest well out of service.

Q. **What is the demand for well supply due to the current customers of Ray Water Company?**

1 A. Ray Water Company's well pumpage averaged about 690,000 gallons per day or 480  
2 gpm in 2008. The standard peaking factor of two times the average day demand  
3 provides a peak day demand of 960 gpm.  
4

5 **Q. Does the Ray Water Company have any other anticipated demands?**  
6

7 A. Yes, when the replacement Well No. 2 was drilled in 2007, part of the increased  
8 capacity of the new well was dedicated to a number of residential and commercial  
9 developers that paid for a portion of the well replacement project through a master  
10 plan for those development projects. These developments totaled approximately 190  
11 residential units and 40 acres of commercial development. The anticipated peak day  
12 demand of all the developers that Ray Water Company has already committed to serve  
13 is an additional 160 gpm. In addition, there are a few subdivisions in the water  
14 company that are under construction but not yet fully built out. Therefore the total  
15 peak day demand that we are currently anticipating is a minimum of 1,120 gpm.  
16

17 **Q. Can the Ray Water Company meet the required peak day demand of the existing**  
18 **water system?**  
19

20 A. If all the wells are in operation, then on paper the well capacity looks sufficient. There  
21 is 1,425 gpm of well capacity, and with the largest 400 gpm well out of service the  
22 available capacity is currently 1,025 gpm. This indicates that the water company  
23 could provide peak day demand of 960 gpm.  
24  
25  
26

1 Q. You say that "on paper" the capacity looks sufficient; is the situation different in  
2 the actual water system?

3  
4 A. It is different. The total well capacity listed in the table does not give the whole  
5 picture. The condition of three of the wells is such that they are not reliable, long-term  
6 sources.

7  
8 Q. What would you consider the reliable source water capacity of the Ray Water  
9 Company system?

10  
11 A. The reliable source capacity is 725 gpm, from Well Nos. 2 and 7.

12  
13 Q. How would you characterize the remaining well capacity?

14  
15 A. The 700 gpm capacity of the three remaining wells should not be considered a long-  
16 term, reliable source.

17  
18 Q. Can you give some examples of the types of issues that Ray Water Company has  
19 experienced with the wells?

20  
21 A. There are two general types of issues, mechanical and electrical equipment failures,  
22 and casing failures. All of the wells in Ray Water Company produce sand to some  
23 degree, which can cause premature failure of pumping equipment due to wear.  
24 Sanding issues and general aging have caused wells to be removed from service for  
25  
26



1 repairs. In addition, some wells have experienced motor failures and other electrical  
2 equipment issues that have caused the wells to be removed from service for repairs.

3  
4 When these types of equipment failures happen and the pump is removed from the  
5 well, the water company typically takes the opportunity to video the well casing and  
6 review the condition. As a result of these videos, the water company has also  
7 documented problems, such as holes in the casing and plugged perforations. When  
8 these problems are identified the wells are cleaned, patched or otherwise treated, but  
9 many of these are short-term fixes to keep the wells up and operating as long as  
10 possible.

11  
12 **Q. When these types of issues occur, how long are the wells out of service?**

13  
14 **A.** It can vary from a few days to a few weeks for a mechanical or electrical failure, and  
15 from a few weeks to a month or more for casing inspection, rehabilitation, and repairs.  
16 For the worst casing issues, wells have been taken out of service permanently.

17  
18 **Q. How long does it take to drill and equip a new well, and what is involved?**

19  
20 **A.** The water company should plan on 10 to 12 months for a well replacement project.  
21 There are two separate construction phases in a well replacement project, well drilling  
22 and then site construction. Both phases typically involve preparation of plans and/or  
23 specifications, bidding for the construction services, and the actual construction work.  
24 There are also permits that must be obtained prior to well drilling and prior to  
25 construction of the well site and equipping the well.  
26

1  
2 The water company would typically have a specification prepared by a hydrogeologist  
3 for the well replacement. The hydrogeologist would also help the water company  
4 apply for the Arizona Department of Water Resources (ADWR) well drilling permit.  
5 The water company would then obtain bids from multiple licensed well drillers to  
6 obtain a competitive price, and select a driller to perform the work based on price and  
7 availability. Once the driller is selected, ADWR can complete and issue the well  
8 permit. Depending upon the availability of drillers, there can sometimes be a wait of  
9 weeks or months before the driller mobilizes to the site. The well drilling, casing,  
10 development, and testing typically take 4 to 6 weeks, but the entire process for  
11 specifications, bidding, permitting and construction would typically take 3 to 4  
12 months.

13  
14 The testing of the well provides the information needed for the sizing of the well  
15 pump. Then the engineer can complete the well equipping plans and specifications  
16 and submit to the Arizona Department of Environmental Quality (ADEQ) for  
17 Approval to Construct. The construction plans are typically bid to multiple  
18 contractors to ensure a competitive price. The engineering plans and specifications,  
19 bidding, permitting and construction would typically take 7 to 8 months.

20  
21 These timeframe for the well replacement project could be compressed to 6 to 7  
22 months at significant additional cost to the water company.

23  
24 **Q. So, if one or more of the at-risk wells had to be taken out of service due to casing**  
25 **failure, it could take up to a year to replace that well capacity, and during that**  
26

1       **time the water company may not have adequate capacity to serve customer**  
2       **demands?**

3  
4    A.    That is correct.

5  
6    Q.    **Could you summarize your professional opinion about the well capacity of the**  
7       **Ray Water Company system?**

8  
9    A.    I believe that although the well capacity looks acceptable on paper, the reality is that  
10       three of the wells should not be considered reliable well capacity. Historically, a  
11       number of wells in this system have failed and the available evidence suggests that the  
12       three older wells that are still in operation are not in adequate condition to be  
13       considered reliable capacity. I believe that the water company's approach to proactive  
14       well capacity replacement is prudent engineering practice.

15  
16   Q.    **Does this conclude your direct testimony?**

17   A.    Yes, it does.  
18  
19  
20  
21  
22  
23  
24  
25  
26

# **Ray Water Company / Financing**

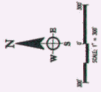
W-01380A-09-0106

Evidentiary Hearing  
December 17, 2009  
Tucson, Arizona

Exhibit A-6  
Applicant Exhibit No. 6

Reduced version provided





LEGEND



RAY WATER COMPANY  
WATER WELL STATUS

DECEMBER 14, 2009

**WELL NO. 3**

ADWR #55-609464

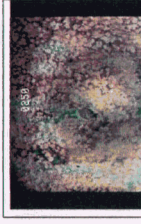
CAPACITY  
250 GPM  
DRILLED IN:  
1969



**WELL NO. 4**

ADWR #55-609465

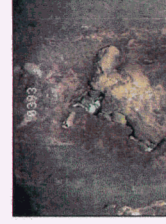
CAPACITY  
125 GPM  
DRILLED IN:  
1973



**WELL NO. 6**

ADWR #55-800420

CAPACITY  
325 GPM  
DRILLED IN:  
1983



**WELL NO. 7**

ADWR #55-212103

CAPACITY  
325 GPM  
DRILLED IN:  
2007

**WELL NO. 5**

ADWR #55-609466

CAPACITY  
~~75 GPM~~  
DRILLED IN:  
~~1963~~



**WELL NO. 2**

ADWR #55-214966

2A CAPACITY  
~~150 GPM~~  
DRILLED IN:  
~~1959~~  
2B CAPACITY  
~~250 GPM~~  
DRILLED IN:  
~~1992~~  
2C CAPACITY  
~~100 GPM~~  
DRILLED IN:  
~~2004~~  
2D CAPACITY  
400 GPM  
DRILLED IN:  
2007

**WELL NO. 1**

ADWR #55-609462

CAPACITY  
~~75 GPM~~  
DRILLED IN:  
~~1957~~

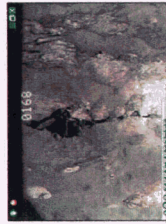


PHOTO SOURCE: 2009 NATIONAL AERIAL PHOTOGRAPHY PROGRAM

Westland Resources, Inc.  
A Division of Westland Resources  
10000 N. 10th Avenue, Suite 100  
Phoenix, AZ 85021 (602) 955-1000



MEMORANDUM

LEGAL  
RECEIVED

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

RECEIVED

SEP 18 2009

2009 SEP 18 P 4: 24

AZ CORP COMMISSION  
DOCKET CONTROL

ARIZ. CORP. COMMISSION

DATE: September 18, 2009

RE: **REVISED** STAFF REPORT FOR RAY WATER COMPANY, INC.  
APPLICATION FOR APPROVAL OF LONG-TERM FINANCING FOR  
REPLACEMENT OF AN EXISTING WELL (W-01380A-09-0106)

Attached is the Staff Report for the Ray Water Company, Inc.'s application for authority to borrow funds from R & M Real Estate Limited Partnership, L.L.P. of Arizona. Staff recommends denial.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before September 28, 2009.

SMO:BCA:kdh

Originator: Brendan C. Aladi

**FILE COPY**

Service List for: Ray Water Company, Inc.  
Docket No. W-01380A-09-0106

Ms. Rhonda Rosenbaum, President  
Ray Water Company  
414 North Court Avenue  
Tucson, Arizona 85701

Mr. Hugh A. Holub  
Attorney at Law  
Post Office Box 4773  
Tubac, Arizona 85646

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Steven M. Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief Administrative Law Judge, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**RAY WATER COMPANY  
DOCKET NO. W-01380A-09-0106**

**APPLICATION FOR AUTHORITY  
TO  
INCUR LONG-TERM INDEBTEDNESS**


**SEPTEMBER 18, 2009**



## STAFF ACKNOWLEDGMENT

The Staff Report for Ray Water Company, Docket No. W-01380A-09-0106, is the responsibility of the Staff members listed below. Brendan C. Aladi is responsible for the financial analysis. Jian Liu is responsible for the engineering review.

  
BRENDAN C. ALADI  
PUBLIC UTILITIES ANALYST III

  
JIAN LIU  
UTILITIES ENGINEER

**EXECUTIVE SUMMARY  
RAY WATER COMPANY, INC.  
DOCKET NO. W-01380A-09-0106**

On March 11, 2009, Ray Water Company, Inc. ("Ray Water" or "Applicant"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with R & M Real Estate Limited Partnership, L.L.P. of Arizona ("R & M Real Estate"). R & M Real Estate is a separate entity owned by the shareholders of the Applicant.

Ray Water is a Subchapter "C" Corporation and a Class "C" Arizona public service corporation that owns and operates a public water utility in portions of Pima County, Arizona. The Applicant requests authorization to obtain a \$500,000, 10-year amortizing loan at 9 percent per annum from R & M Real Estate. The terms of the proposed Promissory Note do not provide for encumbrance of the Applicant's assets. The purpose of the loan is to fund a replacement for an existing well.

Staff concludes that Ray Water's existing water system has adequate production and storage capacity. Therefore, Staff cannot conclude that constructing the proposed additional well capacity is reasonable and appropriate, even though the Applicant's cost estimates for the construction are reasonable.

Staff recommends denial of Ray Water's request for authorization to incur a 10-year amortizing loan in an amount not to exceed \$500,000 from R & M Real Estate at a 9 percent interest rate.

As of December 31, 2008, Ray Water's capital structure consisted of 100 percent equity. The Applicant has no existing debt.

Staff calculated a pro forma capital structure reflecting issuance of a \$500,000, 10-year amortizing loan at 9 percent per annum in consideration of the possibility that the Commission will approve the proposed financing, and it is composed of 1.9 percent short-term debt, 27.6 percent long-term debt and 70.5 percent equity. Staff also calculated a pro forma 1.70 debt service coverage ("DSC") ratio. Since this pro forma DSC is greater than 1.0, it shows that cash flow from operations is sufficient to cover all obligations.

Staff concludes that the Applicant's proposed lender, an affiliate, may not offer the best available loan terms despite similar quotes from two banks. For example, the Water Infrastructure Financing Authority of Arizona ("WIFA") typically provides 20-year loans at the prime rate (currently 3.25 percent) plus 2.00 percent, a significantly lower interest than the proposed loan. WIFA loans do require encumbering assets, establishing a "Debt Service Reserve Fund" and obtaining WIFA approval; however, the potential savings in interest expense is substantial. Accordingly, in the absence of a good faith effort to obtain a WIFA loan and in the event that the proposed financing is approved, the authorized terms should not be significantly less favorable than those available from WIFA.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Ray Water's corporate powers and would not impair its ability to provide services and would be consistent with sound financial practices ~~if obtained with terms consistent with the best available~~. However, the loan would not be compatible with the public interest since the intended use of the proceeds is unnecessary for the provision of service and would be an inefficient use of financial and other resources.

Staff is not recommending authorization to incur debt; however, in the event that the Commission grants such authorization to the Applicant, Staff recommends authorization to incur a 10-to-22 year amortizing loan in an amount not to exceed \$500,000 from R & M Real Estate or another lender at an interest rate not exceed the prime rate plus 3.00 percent.

Staff further recommends, in the event that debt incurrence is authorized, that the Commission authorize Ray Water to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285, if necessary, in connection with the loan.

Staff further recommends, in the event that debt incurrence is authorized, authorizing Ray Water to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends, in the event that debt incurrence is authorized, that Ray Water file with Docket Control, as a compliance item in this matter, a copy of the fully executed loan documents, within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends, in the event that debt incurrence is authorized, that Ray Water file with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality's Certificate of Approval to Construct for the replacement well when received by Ray Water, but not later than one year after the effective date of the order granting this application.

Staff recommends that any unused authorizations to issue debt granted in this proceeding terminate on December 31, 2010.

## TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION .....	1
PUBLIC NOTICE .....	1
BACKGROUND .....	1
COMPLIANCE.....	1
PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING .....	1
ENGINEERING ANALYSIS .....	1
FINANCIAL ANALYSIS.....	2
CAPITAL STRUCTURE.....	2
CAPITAL STRUCTURE INCLUSIVE OF AIAC AND CIAC .....	2
PROPOSED TERMS.....	2
CONCLUSION AND RECOMMENDATIONS .....	3

## SCHEDULES

FINANCIAL ANALYSIS.....	BCA-1
-------------------------	-------

## ATTACHMENTS

ENGINEERING ANALYSIS .....	A
AFFIDAVIT OF PUBLICATION .....	B

## INTRODUCTION

On March 11, 2009, Ray Water Company, Inc. ("Ray Water" or "Applicant"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with R & M Real Estate Limited Partnership, L.L.P. of Arizona ("R & M Real Estate"). R & M Real Estate is a separate entity owned by the shareholders of the Applicant.

## PUBLIC NOTICE

On March 26, 2009, the Applicant filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Daily Territorial* on March 17, 2009. The *Daily Territorial* is a daily newspaper of general circulation in the City of Tucson, Pima County, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

## BACKGROUND

Ray Water is a Subchapter "C" Corporation and a Class "C" Arizona public service corporation located in an area southeast of the City of Tucson, Arizona. The Applicant operates a public water utility in portions of Pima County, Arizona.

## COMPLIANCE

A check of the compliance database indicates that there are currently no delinquencies for Ray Water.

## PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The purpose of the loan is to fund the engineering and construction of a new well to replace existing Well No. 6. The Applicant requests that the Commission authorize the financing in an amount not to exceed \$500,000 from R & M Real Estate for a promissory note. The Applicant expects a 10-year amortizing loan at 9 percent per annum.

## ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Applicant's proposed capital improvements and found that the existing water system has adequate production and storage capacity. Therefore, Staff cannot conclude that constructing the proposed additional well capacity is reasonable and appropriate, even though the Applicant's cost estimates for the construction are reasonable. Staff makes no "used and useful" determination pertaining to the proposed capital improvements nor does it make any conclusions for rate base or ratemaking purposes.

## FINANCIAL ANALYSIS

Staff's analysis is shown in Schedule BCA-1. Column [A] of the schedule reflects the Applicant's historical financial information for the year ended December 31, 2008, and Column [B] presents pro forma financial information that modifies Column [A] to reflect a \$500,000, 10-year amortizing loan at 9 percent per annum, which represents the Applicant's proposed new loan.

Debt service coverage ("DSC") ratio represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule BCA-1 shows that for the year ended December 31, 2008, a meaningful DSC cannot be calculated because the Applicant had no outstanding debt. An analysis reflecting a fully drawn \$500,000, 10-year amortizing 9 percent loan results in a pro forma 1.70 DSC as shown in Schedule BCA-1 Column [B]. Since this pro forma DSC is greater than 1.0, it shows that Ray Water would have adequate cash flow from operations to cover all debt obligations.

### *Capital Structure*

As of December 31, 2008, the Applicant's capital structure consisted of 100 percent equity (Schedule BCA-1, Column [A], lines 19-25). Staff calculated a pro forma capital structure reflecting issuance of a \$500,000, 10-year amortizing loan at 9 percent per annum, and it is composed of 1.9 percent short-term debt, 27.6 percent long-term debt and 70.5 percent equity (Schedule BCA-1, Column [B], lines 19-25).

### *Capital Structure inclusive of AIAC and CIAC*

As of December 31, 2008, the Applicant's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")<sup>1</sup> consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, 44.3 percent equity, 39.5 percent AIAC and 16.2 percent CIAC (Schedule BCA-1, Column [A], lines 30-40).

### *Proposed Terms*

In this case, the Applicant proposes to borrow from an affiliate; hence, the motivation to obtain the best available terms is reduced. The Applicant's application uses two bank term sheets to support its proposed terms of 10 years and 9.0 percent interest rate. However, bank loans represent a small portion of the loans offered to water utilities under the Commission's jurisdiction. The Water Infrastructure Financing Authority of Arizona ("WIFA") dominates this

---

<sup>1</sup> Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

market. Therefore, bank loan offers are not representative of the majority of loans issued to water utilities.

WIFA typically provides 20-year loans at the prime rate (currently 3.25 percent) plus 2.00 percent, a significantly lower interest rate than that of the proposed loan. WIFA loans do require encumbering assets, establishing a "Debt Service Reserve Fund" and obtaining WIFA approval; however, the potential savings in interest expense is substantial. Accordingly, in the absence of a good faith effort to obtain a WIFA loan, the authorized terms should not be significantly less favorable than those available from WIFA.

### CONCLUSION AND RECOMMENDATIONS

Staff concludes that Ray Water's existing water system has adequate production and storage capacity. Therefore, Staff cannot conclude that constructing the proposed additional well capacity is reasonable and appropriate, even though the Applicant's cost estimates for the construction are reasonable.

Staff concludes that the Applicant's proposed lender, an affiliate, may not offer the best available terms; accordingly, in the absence of a good faith effort to obtain a WIFA loan and in the event that the proposed financing is approved, the authorized terms should not be significantly less favorable than those available from WIFA.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Ray Water's corporate powers and would not impair its ability to provide services and would be consistent with sound financial practices if obtained with terms consistent with the best available. However, the loan would not be compatible with the public interest since the intended use of the proceeds is unnecessary for the provision of service and would be an inefficient use of financial and other resources.

Staff recommends denial of Ray Water's request for authorization to incur a 10-year amortizing loan in an amount not to exceed \$500,000 from R & M Real Estate at a 9 percent interest rate.

Staff is not recommending authorization to incur debt; however, in the event that the Commission grants such authorization to the Applicant, Staff recommends authorization to incur a 10-to-22 year amortizing loan in an amount not to exceed \$500,000 from R & M Real Estate or another lender at an interest rate not exceed the prime rate plus 3.00 percent.

Staff further recommends, in the event that debt incurrence is authorized, that the Commission authorize Ray Water to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285, if necessary, in connection with the loan.

Staff further recommends, in the event that debt incurrence is authorized, authorizing Ray Water to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends, in the event that debt incurrence is authorized, that Ray Water file with Docket Control, as a compliance item in this matter, a copy of the fully executed loan documents, within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends, in the event that debt incurrence is authorized, that Ray Water file with Docket Control, as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality's Certificate of Approval to Construct for the replacement well when received by Ray Water, but not later than one year after the effective date of the order granting this application.

Staff recommends that any unused authorizations to issue debt granted in this proceeding terminate on December 31, 2010.



**FINANCIAL ANALYSIS**

Selected Financial Information

		[A] <sup>1</sup> 12/31/2008		[B] <sup>2</sup> Pro Forma	
1	Operating Income	\$	21,125	\$	21,125
2	Depreciation & Amort.		109,876		109,876
3	Income Tax Expense		(1,653)		(1,653)
4					
5	Interest Expense		0		43,689
6	Repayment of Principal		0		32,317
7					
8					
9					
10					
11	DSC		N/M <sup>3</sup>		1.70
12	[1+2+3] ÷ [5+6]				
13					
14					
15					
16					
17	Capital Structure				
18					
19	Short-term Debt		0 0.0%	32,317	1.9% <sup>4</sup>
20					
21	Long-term Debt		0 0.0%	467,683	27.6%
22					
23	Common Equity		1,195,207 100.0%	1,195,207	70.5%
24					
25	Total Capital	\$	1,195,207 100.0%	\$ 1,695,207	100.0%
26					
27					
28	Capital Structure (inclusive of AIAC and Net CIAC)				
29					
30	Short-term Debt		0 0.0%	32,317	1.0%
31					
32	Long-term Debt		0 0.0%	467,683	14.6%
33					
34	Common Equity		1,195,207 44.3%	1,195,207	37.4%
35					
36	Advances in Aid of Construction ("AIAC")		1,064,284 39.5%	1,064,284	33.3%
37					
38	Contributions in Aid of Construction ("CIAC") <sup>5</sup>		437,452 16.2%	437,452	13.7%
39					
40	Total Capital (Inclusive of AIAC and CIAC)	\$	2,696,943 100.0%	\$ 3,196,943	100.0%
41					
42					
43	AIAC and CIAC Funding Ratio <sup>6</sup>		55.7%		47.0%
44	(36+38)/(40)				
45					
46					

<sup>1</sup> Column [A] is based on 2008 financial information for the year ended December 31, 2008.

<sup>2</sup> Column [B] is Column [A] modified to reflect issuance of the proposed \$500,000 debt financing amortized for 10 years at 9.0 percent per annum.

<sup>3</sup> Not Meaningful

<sup>4</sup> Pro Forma Short-term Debt represents the first year principal repayment on the proposed loan.

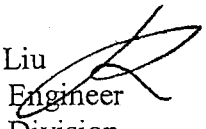
<sup>5</sup> Net CIAC balance (i.e. less: accumulated amortization of contributions).

<sup>6</sup> Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

**MEMORANDUM**

DATE: August 21, 2009

TO: Brendan Aladi  
Public Utilities Analyst III  
Utilities Division

FROM: Jian W. Liu   
Utilities Engineer  
Utilities Division

RE: Ray Water Company, Inc.  
Docket No. W-01380A-09-0106 (Financing)

---

**Introduction**

Ray Water Company, Inc. ("Ray Water" or the "Company") is an Arizona public service corporation authorized to provide water service within portions of Pima County, Arizona. Ray Water provided service to 1,510 customers as of December 31, 2008.

**Financing Application**

On March 11, 2009, the Company filed an application with the Commission requesting authority to borrow \$500,000 from R & M Real Estate Limited Partnership, L.L.P. for a term of 10 years at a 9 percent interest rate. R & M Real Estate Limited Partnership, L.L.P. is a separate, independent entity owned by the shareholders of Ray Water.

If the subject financing is approved, Ray Water intends to use the funds for the engineering and construction of a well to replace its existing Well No. 6.

On or about December 6, 2008, Ray Water Well #6 stopped operating. After the pump and submersible motor were pulled and the well was videoed, it was determined that there were many holes in both the well's blank casing and screen. Because of the poor condition of the casing and screen, Company's hydrology consultants, Clear Creek Associates, recommended abandoning the existing well and drilling a replacement well.

**Engineering Analysis**

The existing water system consists of four wells capable of producing approximately 1,125 gallons per minute ("GPM") of total capacity, and a total storage tank capacity of 775,000 gallons. Based on 2008 water use data, Ray Water's existing water system (without Well No. 6) can adequately support approximately 780 additional connections. If the top producing well,

which produces approximately 400 GPM, is taken off line the water system would have a minimal capacity deficiency of approximately 28 connections.

Ray Water Company has an interconnect with the Tucson Water system. This interconnect can be used as an additional source of water for the Company in the event of an emergency. The Company has experienced minimal customer growth in recent years. Therefore, Staff cannot conclude that the construction of additional well capacity is reasonable and appropriate.

### **Cost Analysis**

The Company's estimated cost for the proposed Well No. 6 replacement project is as follows:

Drill replacement well:	\$252,000
Site work to install pump, electric and connect to existing storage	215,000
Hydrology consultant	21,050
Source Approval sampling	3,500
Engineering design & inspection work	47,300
<b>TOTAL (not including 15 percent contingency)</b>	<b>\$538,850</b>

Staff has reviewed the Company's proposed plant additions and concludes that the above listed cost estimates are reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance Status**

ADEQ regulates the Company's Water Systems under ADEQ Public Water System ("PWS") #10-095. ADEQ reported that the Ray Water drinking water system is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards as required by the Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report Dated June 25, 09).

### **Arizona Corporation Commission Compliance Status**

A check of the Utilities Division Compliance database showed there were no delinquent compliance items for the Company.

### **Arizona Department of Water Resources Compliance ("ADWR") Status**

The Company is located in Tucson Active Management Area ("AMA") and is subject to AMA reporting and conservation requirements.

Staff received an ADWR compliance status report on July 16, 2009. ADWR reported that Ray Water is currently in compliance with departmental requirements governing water providers and/or community water systems.

### **Conclusions**

Staff concludes that Ray Water's existing water system has adequate production and storage capacity. Therefore, Staff cannot conclude that the construction of additional well capacity is reasonable and appropriate.

RAY WATER COMPANY, INC.

414 North Court Avenue  
Tucson, Arizona 85701  
(520) 623-1332  
FAX (520) 623-2302

RECEIVED

2009 MAR 26 P 3:46

CORP COMMISSION  
DOCKET CONTROL

March 20, 2009

Arizona Corporation Commission  
Utilities Division  
Docket Control Center  
1200 West Washington  
Phoenix, AZ 85007

RECEIVED

MAR 26 2009

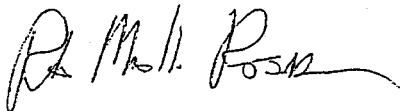
CORP COMMISSION  
DOCKET CONTROL

RE: Docket #W-01380-A-09-0106

To Whom It May Concern:

Enclosed is the evidence of publication of public notice of our Application for Long Term Financing. Please add this to our above-referenced Docket. If you have any questions, please call me at (520) 623-2366.

Sincerely,



Rhonda Mallis Rosenbaum  
General Manager  
Ray Water Company

Enclosures

Re: Dkt # W-01380-A-C-0106

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA )  
COUNTY OF PIMA ) ss.

Jamie Macias, being first duly sworn, deposes and says that (s)he is the Legal Advertising Manager of THE DAILY TERRITORIAL, a daily newspaper printed and published in the County of Pima, State of Arizona, and of general circulation in the City of Tucson, County of Pima, State of Arizona and elsewhere, and the hereto attached:

PUBLIC NOTICE  
AUTHORIZING ISSUANCE OF PROMISSORY NOTE BY  
RAY WATER CO

was printed and published correctly in the regular and entire issue of said THE DAILY TERRITORIAL for 1 issues; that was first made on the 17th day of March 2009 and the last publication thereof was made on the 17th day of March 2009 ; that said publication was made on each of the following dates, to-wit:  
03/17/09

at the Request of: Rhonda Rosenbaum

**The Daily Territorial**  
by Jamie Macias, Legal Advertising Manager  
Subscribed and sworn to before me this 17th day of March 2009 .

Robbie Jones

Notary Public in and for the County of Pima, State of Arizona



ROBBIE JONES  
Notary Public - Arizona  
Pima County  
Expires 11/01/2012

My commission expires: 11-1-12

# Advertising Receipt

Territorial Newspapers, Inc.  
THE DAILY TERRITORIAL  
POB 27087 - Tucson, AZ 85726

Phone: (520) 294-1200  
Fax: (520) 295-4076

Rhonda Rosenbaum  
414 N. Court  
Tucson, AZ 85701

Acct #: 04101442  
Ad #: 00049310  
Phone: (520) 623-2366  
Date: 01/27/2009  
Ad taker: JM Salesperson:

Sort Line: 1/30 quote

Classification 125

Description	Start	Stop	Ins.	Cost/Day	Total
01 The Daily Territorial	03/17/2009	03/17/2009	1	26.13	26.13
AfC Aff of Publication					5.00
AfRe Return Aff to Custome					0.00

## Ad Text:

PUBLIC NOTICE  
OF AN APPLICATION  
FOR AN ORDER  
AUTHORIZING THE ISSUANCE OF PROMISSORY NOTE  
BY RAY WATER COMPANY.

Ray Water Company filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to issue up to \$500,000 of long-term debt.. The application is available for inspection during regular business hours at the office of the Commission Phoenix, Arizona, and the company's offices in Tucson, Arizona. intervention in the commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct

## Payment Reference:

Rhonda Rosenbaum CC NO. 0801  
05/10 -31.13 Auth:

Total: 31.13  
Tax: 0.00  
Net: 31.13  
Prepaid: -31.13

Total Due: 0.00



PUBLIC NOTICE  
OF AN APPLICATION  
FOR AN ORDER  
AUTHORIZING THE ISSUANCE OF  
PROMISSORY NOTE  
BY RAY WATER COMPANY.

Ray Water Company filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to issue up to \$500,000 of long-term debt. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the company's offices in Tucson, Arizona.

Intervention in the commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information: 1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor. 2. A short statement of the proposed intervenor's interest in the proceeding. 3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.

4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

PUBLISH: The Daily Territorial  
March 17, 2009  
prraywater j.m

Re: Ray Water Co

Docket # W-01380-A-09-0106